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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1986

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 3037

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1986, AND FOR OTHER PURPOSES

PART 3 (Pages 1-697)

NONDEPARTMENTAL WITNESSES

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1986

MONDAY, APRIL 15, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:08 p.m. in room SD–138, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Mattingly, Burdick, Sasser, and Bumpers.

NONDEPARTMENTAL WITNESSES

OPENING REMARKS

Senator COCHRAN. The subcommittee will please come to order.

This afternoon, we are very happy to welcome all of you, as we continue our hearings and receive testimony from congressional and nongovernmental witnesses who want to express views or opinions with respect to the programs which come under the jurisdiction of this subcommittee. As you know, we have jurisdiction over funding of the programs of the Department of Agriculture, the Commodity Futures Trading Commission, and the Food and Drug Administration.

We have a large number of persons who have requested an opportunity to testify before the subcommittee, and because of that, we have allocated 3 days to these hearings. We hope that witnesses can keep their statements brief. We have written statements, which we will incorporate into the record, and we would encourage you to limit your comments to 5 minutes each, so that we might have an opportunity to hear from everyone who is scheduled to testify.

We feel that this aspect of our hearings plays a very important role in providing valuable information to the subcommittee. The knowledge, insights, and experiences of the witnesses will ensure that the subcommittee members will have a wide range of information that should enable us to make good decisions regarding the appropriate levels of funding for all of these various programs.

I should point out at this time that the subcommittee cannot receive any copyrighted material, unless arrangements have been made in advance by the witness to obtain the permission of the copyright owner to include those materials in the subcommittee hearing transcript. This notice is being given to protect copyright owners as well as the subcommittee and witnesses.

Before turning to our witnesses, I now recognize Senator Bumpers for any statement he may wish to make. Senator Bumpers.

Senator BUMPERS. I want to welcome everyone who has come to Washington to testify before the Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies. It is good to see so many interested organizations represented here to comment on the proposed budget for fiscal year 1986. Your concerns are especially important as we consider these proposals, and I am personally very grateful for your many efforts to let those concerns be known.

TUSKEGEE INSTITUTE SCHOOL OF VETERINARY MEDICINE

STATEMENT OF WALTER C. BOWIE, D.V.M., PH.D., DEAN

Senator COCHRAN. As our first witness today, we want to welcome Dr. Walter C. Bowie, dean, Tuskegee Institute School of Veterinary Medicine, Tuskegee, AL.

Dr. Bowie, you may proceed.

Dr. BOWIE. Thank you, Mr. Chairman and members of the committee.

My name is Walter C. Bowie, and I am the dean of the Veterinary School of Medicine of Tuskegee, AL. Thank you for the opportunity to come before you today.

The school of veterinary medicine is requesting $6 million for the construction of a veterinary facility under section 1415 of the Food and Agricultural Act of 1977, Public Law 95–113.

This legislation, as you know, permits the Secretary of Agriculture to conduct a program of grants for the purpose of establishing or expanding existing schools of veterinary medicine. Last spring, the school of veterinary medicine submitted written testimony on this subject to your Committee on Appropriations. The committee, in its report, expressed its interest in the project, and in concurrence with the House request, requested that a team made up of representatives from USDA and FDA, review this proposal and report to the committee no later than January 1, 1985, as to the feasibility of establishing an institute for food animal production, research, and service within the School of Veterinary Medicine at Tuskegee Institute.

Since my testimony last year, two significant events have taken place which impact directly upon my request. First, the review, as requested by the committee, has been conducted and the review team has made its report to you. I am pleased to cite the three major recommendations in that report. One, it is feasible that Tuskegee Institute School of Veterinary Medicine establish a regional institute for food animal production, research, and service. The major focus of this institute should be on the aspects of research showing promise for increasing the productivity and quality of food-producing animals for human consumption. Two, such an institute is needed and would more effectively service the limited-resource farmer in the United States, especially in the South. Three, research and service generated by this institute could be extrapolated to the needs of farmers and Third World developing countries.

The second significant event which has taken place is the deteriorating plight of the American farmer. Finding a solution to this problem will not be easy. The urgency of the immediate problems such as budget deficits, trade imbalances, and financial stresses often overwhelm the political processes, and thus precludes adequate consideration of the long-term solutions which research, education, and extension can provide.

While immediate problems are important and must be addressed, it is essential to find a way to ensure the future capacity of research and extension programs at our 1862 and 1890 colleges and universities.

The Office of Technology Assessment, in its special report for the 1985 Farm Bill, has highlighted again the fact that the success of American agriculture is attributable to the creation of its agricultural research and extension system.

It further states that for the period 1945 to 1979, technological innovation brought about by the system increased agricultural output 85 percent.

Research and extension are vital to maintaining the competitiveness and comparative advantage of U.S. agriculture in international trade.

Due to the limitation of time, I would like to address briefly three points which make this request unique and, therefore, the bases for the recommendations made by the task force which undertook the feasibility study.

One, the School of Veterinary Medicine at Tuskegee is regional in scope, and it has been since its inception. The school currently contrasts the training of students from seven regional States and the State of New Jersey. In academic year 1984–85, Tuskegee enrolled 234 veterinary students from 28 States, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. It is a national resource.

The second point is that the School of Veterinary Medicine has a remarkable record in the training of black and other minority students in veterinary medicine. The school has trained approximately 90 percent of the black American veterinarians who have been trained in the United States. Today, Tuskegee enrolls 75 percent of all black students in veterinary medicine. Because the veterinary profession still has the smallest representation of blacks—1.6 percent among the health professionals—this effort by Tuskegee is essential to the Nation and to the region.

Its graduates, located in 45 States and the District of Columbia, are now making significant contributions to the Nation.

The third point is that Tuskegee Institute, and more importantly, its School of Veterinary Medicine, has played a major role in assisting black and other small farmers of the deep South. The USDA–FDA report states, and I quote, "The Institute for Food Animal Production, Research, and Service will assist the Tuskegee School of Veterinary Medicine to address the problems of the disadvantaged, in this case, to the limited-resources farmer." Ninety-two percent of the black farmers today fall into the limited-resource group. Two-thirds of the limited-resource farmers invest in livestock as their main source of income.

Further, the report states that since the School of Veterinary Medicine has been able to pursue a total program addressing the problem of food animal production of the small farmer, it holds a unique and vital potential to expand its regional influence to national and international users. Additional research facilities, staff, and instrumentation are keys to the school of veterinary medicine being able to fully develop this capacity.

The functions of the Tuskegee Institute School of Veterinary Medicine are unique and cannot be duplicated. Being a privately controlled, State-related institution, the school will not be able to receive matching funds for this program from the State of Alabama as per the legislative requirement. Therefore, it is requesting that your committee waive the State matching requirement.

In conclusion, the problems of the American farmer are serious and complex. Resolving them will require long-term solutions. Historically, America has achieved those solutions by investing in research and extension services. Tuskegee Institute has developed its reputation by focusing its research on problems affecting the small, limited-resource farmer and developing innovative solutions. In an era of crisis, I suggest that Congress stay with a successful formula.

Your earnest consideration of this request is appreciated. I would be happy to respond to any questions that you may wish to raise. Thank you very much.

Senator COCHRAN. Thank you, Dr. Bowie, for your excellent statement. We appreciate your abbreviating the more lengthy written statement for the benefit of everyone who is scheduled to testify today.

Senator Mattingly, our distinguished colleague from the State of Georgia, and a very valuable member of this committee, is here and has some statements to submit for the record. He has other commitments in other committees, so I am going to recognize him at this time.

Senator Mattingly.

Senator MATTINGLY. Thank you, Mr. Chairman, and Dr. Bowie. I just want to thank you for coming to testify today. We appreciate not only your interest, but your long-time work in this field.

Dr. BOWIE. Thank you.

Senator MATTINGLY. I do have a conflict, but I have some questions I would like for you to respond to in writing. Thank you, Mr. Chairman.

Dr. BOWIE. Thank you very much.

Senator COCHRAN. Thank you, Senator.

Dr. Bowie, we are confronted with a big challenge this year. We are asked on the one hand to do something effective, and on the other to get the spending of the Federal Government under control, thereby reducing the deficit and the impact that that could have in a negative way on the economy and our ability to continue to grow and provide jobs and have a healthy economy.

This is an area that is very important to my State. The Agricultural Research Service budget and a lot of activities that are performed under other research programs are performed in many of the colleges and on the campuses of universities throughout the Southeast, including my State of Mississippi. At Mississippi State University and Alcorn State University and other institutions, we see some very valuable work being done that is designed to directly benefit the small and medium-sized farmer and agricultural producer in the South. Tuskegee is an important resource for our Nation in this effort.

Your proposal here for a regional center is very interesting, and I know that the committee is going to benefit from the information that you have provided to us today. We appreciate your being here and helping us in this way.

Do you have an analysis of the expense that this will require? What would be the immediate contribution of the Federal Government?

Dr. Bowie. My initial approach last year, Mr. Chairman, was that if we could have the congressional appropriation divided into 2 years with $2 million in the initial year of appropriations for planning, for the architectural work, and for some program staffing and development, and then $4 million in the second year, it would be most helpful.

Inasmuch as the committee asked for the feasibility study and because of the timeframe, we had asked for the $6 million this year. However, that would be, of course, left to the best judgment of the committee. It would be to our advantage to be assured that we had the funding in order that we could proceed, and it is in that sense that I would leave that open.

Senator Cochran. Right. This is helpful to us, and we appreciate very much your personally being here and taking the time to present this to the committee.

Dr. Bowie. Thank you, again.

Senator Cochran. Thank you.

[Dr. Bowie's prepared statement follows:]

STATEMENT OF DR. WALTER C. BOWIE

I am W. C. Bowie, Dean of the School of Veterinary Medicine at Tuskegee Institute, testifying on behalf of the proposed Regional Institute for Food Animal Production, Research and Service. You will recall that the school made a written presentation on this subject to your committee one year ago. The committee in its report expressed its interest in the project and in concurrence with the House requested that a team made up of representatives from the U.S. Department of Agriculture and the Food and Drug Administration review this proposal and report to the committee as to the feasibility of establishing such an Institute. That review has been conducted, and the team has made its report. In summary, the recommmendations were made as follows:

1. It is feasible that Tuskegee Institute School of Veterinary Medicine establish a Regional Institute for Food Animal Production, Research, and Service. The major focus of this Institute should be on the aspects of research showing promise for increasing the productivity and quality of food-producing animals for human consumption.

2. Such an Institute is needed and would more effectively service the limited-resouce farmer in the United States, especially in the South.

3. Research and service generated by this Institute could be extrapolated to the needs of farmers in Third World developing countries.1/

The rationale for the development of this proposal remains the same, but the need for the center is even more urgent given the plight of the American farmer and the small farmer in particular. Immediate problems such as budget deficits, trade imbalances, and financial stress often overwhelm the political process. This situation precludes adequate consideration of the long-term solutions which research, education and extension can provide. While immediate problems are important and must be addressed, it is essential to find a way to insure the future capacity of research programs at land grant schools. Although the major focus at land grant institutions has been on the larger producers, it is important to note that Tuskegee Institute's commitment and mission dictate that it must focus its attention on research which shows promise for making an impact on problems common to the limited resource farmer. It may be worth noting that the 1983 USDA Task Force Report on Black Farm Ownership cited Tuskegee Institute as one of the few universities that had taken significant steps to alleviate the problems of limited resource farmers.2/

INTRODUCTION

The Tuskegee Institute School of Veterinary Medicine proposes to revise its instruction, training and service programs relating to food-producing animals so as to serve better the needs of the region. In order to undertake this more comprehensive role, the school is requesting $6 million dollars for the construction of a veterinary facility under Section 1415 of the Food and Agriculture Act of 1977, P.L. 95-113. This legislation permits the Secretary of Agriculture to conduct a program of grants for the purpose of establishing or expanding existing schools of veterinary medicine. Tuskegee seeks to develop a regional food animal institute designed to address:

(1) the major concerns of livestock losses due to diseases;

(2) the problems of black and limited resource farmers of the black belt region;

(3) the need for more and better trained minority veterinarians, and

(4) the need to undertake a comprehensive research program designed to transfer modern bio-technological changes occurring in the livestock industry.

I. RATIONALE

The United States is now three generations removed from the era when 50 percent or more of its population lived on the farm. Agriculture is able to feed the United States population on about 16 percent of its disposable income, and the animal industry is responsible for 50 percent of the total farm income. The total annual dollar value of agricultural crop sales in this country is slightly over 70 billion dollars.3/ Meat contributes over 1/3 of the energy, almost 3/4 of the protein, most of the calcium and phosphorus and a substantial portion of most other nutrients consumed by Americans.

While agriculture is a major industry in Alabama, Georgia, Mississippi and other Deep South States, losses suffered by animal producers are still staggering. National studies indicate that at least 20 percent of livestock income is lost to disease and reproductive failure. These losses cost the American farmer, and thus the American public, nearly $17.5 billion annually.4/ Significant reductions in these losses are essential if the sale of livestock products is to continue to provide 50 percent of the annual farm income, and the essential nutritional needs of the American people.

II. A REGIONAL FOOD ANIMAL INSTITUTE AT TUSKEGEE INSTITUTE

A major question that could be raised at this point is "Why at Tuskegee Institute?" Space limitations do not permit full explanation of this question, however, I will briefly mention at least three contributing factors. They include (1) Tuskegee's proven high level performance as a School of Veterinary Medicine, (2) Tuskegee's unequaled record in recruiting and serving specialty clientele, and (3) Tuskegee's regional focus for training and service in the field of veterinary medicine.

A. Uniqueness of the School

The Tuskegee Institute School of Veterinary Medicine has an admirable history of being the only veterinary program located on a predominately black college campus. Its focus on training blacks and other minority veterinarians has earned the school an international reputation, having trained over 90 percent of black American and foreign veterinarians from the developing countries who have studied in this country. Even though other veterinary schools have made sincere efforts to increase minority enrollment, Tuskegee still enrolls 75 percent of all black students in veterinary medicine. Despite Tuskegee's efforts, the profession still has the smallest (1.6 percent) representation of blacks among health professions.5/

Due to its institutional commitment and location in the midst of the Black Belt, the Tuskegee School of Veterinary Medicine has placed a special focus on providing rural development services. In its attempt to improve the quality of life for an appropriate and needy constituency, Tuskegee Institute has focused its strategy on black and limited resource farmers. Small and limited resource farms make up the majority of the United States farms, although they now produce only a limited portion of the overall United States crop and livestock. It is this segment of the agricultural industry which is severely affected by fluctuations in the economy and damage due to widespread animal disease.

According to a United States Department of Agriculture (USDA) Task Force Report on black farm ownership, the United States farm sector has been divided into two groups. At one extreme, with annual sales over $100,000, are 198,000 highly capitalized operations - about 12 percent of the total - that account for 70 percent of all agricultural sales and realize nearly all of the agricultural sector's net farm income. At the other extreme, with annual sales under $40,000, are 1.7 million farms - over 70 percent of the total - that account for roughly 13 percent of all agricultural sales and operate at a net loss. The great majority of black-operated farms falls into this second group.6/ The mean value of products sold by black farmers was $8,000 in 1978, compared with $44,000 for white farmers. Nearly three-fifths of all black farmers sell under $2,500 in products. Many of these are part-time farmers, but over half are people who report farming as their principal occupation. Even with the best profit margins, it is difficult to make an adequate income with less than $20,000 of gross sales.7/

B. Regional Nature of the School

In addition to its clear mission in society, the School of Veterinary Medicine began with a well defined geographic focus. Since 1948, Tuskegee has been a member of the Southern Regional Education Board (SREB) with the responsibility to provide regional veterinary medical training of black students in the South. Through this arrangement the School of Veterinary Medicine at Tuskegee trained students from twelve states, Alabama, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. Currently, the school maintains contractual agreements with Arkansas, Mississippi, Kentucky, Alabama, Georgia, South Carolina, West Virginia and New Jersey. It should be noted that these agreements are no longer limited to the training of only black students from the participating states.

As a result of its own affirmative action efforts and due to the changing SREB arrangements, Tuskegee's student body has become the most diverse among veterinary schools. In academic year 1984-85, Tuskegee enrolled 234 veterinary students from 28 states, the District of Columbia, the U.S. Virgin Islands, and the U.S. Commonwealth of Puerto Rico. Included in these 29 states were all the twelve states participating in the original SREB agreement and the additional southern states of Arkansas, Delaware, Oklahoma, and Texas. Its graduates are located in 45 states and the District of Columbia; thus, Tuskegee is a national resource.

III. OBJECTIVES

The specific ojectives of the new program will be:

1. To establish within the School of Veterinary Medicine at Tuskegee Institute A Regional Institute for Food Animal Production, Research and Service. Here, the major focus will be on the applied aspects of research, instruction and management which show the greatest promise for increasing food animals for human consumption.

2. To expand facilities which assist with the care and preventive medical care of food-producing animals, particularly small ruminants and other minor species.

3. To focus the training, research and outreach efforts of the Regional Institute on the emerging career opportunities in the animal food production enterprise.

4. To develop a fully coordinated and comprehensive regional program of work with the participating institutions. Tuskegee Institute is a member of a consortium of eight minority health professions schools; The Meharry Schools of Medicine and Dentistry, The Morehouse School of Medicine, The Charles R. Drew Post Graduate School of Medicine, and the Schools of Pharmacy at Florida A & M University, Texas Southern University and Xavier University (New Orleans). Significant collaborative research affecting both man and animals could take place through this consortium.

IV. PROGRAM OF WORK

A new facility will improve service to the region in several ways. The facility will permit an improvement in the services that the school currently provides to farmers throughout the Black Belt region of the Deep South. In its Task Force Report on Black Farm Ownership, USDA also recognized that, with few exceptions, little research has been specifically focused on the needs of small black farmers. The exceptions that the report cited were those projects that were carried out at Tuskegee Institute and the limited small farm research program of the Agricultural Research Service. The report recommended that USDA and cooperating institutions, like Tuskegee, continue research directed at developing additional enterprises and enterpise combinations suitable for production on small black farms and work to promote the adoption of such enterprises.8/

The school must play a role in bridging the technology gap between the limited resource small farmer and recent advances in biotechnology that hold promise of improving animal health. Diseases affecting minor species and other livestock throughout the South can cause major economic losses and reduce food production at a time when both the population and the demand for meat are growing. It seems clear that recent advances in biotechnology can solve some of the current animal disease problems. These advances include the production of recombinant DNA and synthetic peptide vaccines to prevent disease, the development of monoclonal antibodies to diagnose infection and offer passive immunity, the creation of improved feed crops and additives to improve animal nutrition, and the large scale manufacture of growth hormones to speed animal maturation.8/ Such advances should help farmers produce more food for more people and Tuskegee can play a distinctive role in this effort through the proposed new program thrust as presented herein.

A USDA funded facility will permit the development of a comprehensive institute for small ruminant and minor species study and service. Such an institute will improve the quality of the school's research and academic program and thus strengthen its case for continued accreditation. The Council on Education of the American Veterinary Medical Association reviews the school's qualifications for continued accreditation on a periodic basis, and the school's next review is scheduled for 1986. The school must demonstrate the most current instructional, research and service programs to keep from jeopardizing its accreditation. Thus, accreditation is another compelling reason for a new facility and a new program thrust.

V. BUDGET

The Tuskegee School of Veterinary Medicine is requesting $6 million for a facility that will permit its faculty to provide instruction, carry out research and offer veterinary care focusing on small ruminants and some minor species. Tuskegee proposes that Congress provide $6 million in the Fiscal Year 1986 for planning, construction and equipment purposes.

Tuskegee Institute is a privately controlled state-related institution. As such, the institution does not receive state support but, rather, state assistance. Under these conditions it is unlikely that Tuskegee Institute could secure matching funds for this program from the State of Alabama. Therefore, it is urgently requested that the matching requirement stated in the law be waived in the case of Tuskegee Institute.

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1. Agricultural Research Service and Cooperative State Research Service, U.S. Department of Agriculture in collaboration with Food and Drug Administration, U.S. Department of Health and Human Services, Review of Tuskegee Institute Proposal to Develop a Regional Institute for Food Animal Production, Research and Service, December, 1984, p.7.

2. Report of the USDA Task Force on Black Farm Ownership, United States Department of Agriculture, September 22, 1983, p.57.

3. Association of American Veterinary Medical Colleges-Council of Deans, Biotechnology for Animal Health, Winrock International Conference Center, Morrilton, Arkansas, November 8, 1983, p.2.

4. Ibid, p.3.

5. Hanft, Ruth, S., Linda E. Fishman and Windy J. Evans. Blacks and the Health Professions in the 80's: A National Crisis and a Time for Action. Prepared by the Association of Minority Health Professions Schools, June, 1983, p.x.

6. Report of the USDA Task Force on Black Farm Ownership, United States Department of Agriculture, September 22, 1983, p.4.

7. Ibid, p.10.

8. Ibid, p.86.

9. Congressional Research Service, Animal Sciences: Advances in Reproductive and Health Technologies, Transmitted to the Committee on Science and Technology, U.S. House of Representatives, October, 1983, p.2.

NATIONAL FOOD PROCESSORS ASSOCIATION

STATEMENT OF JACK L. COOPER, DIRECTOR, ENVIRONMENTAL AFFAIRS

Senator COCHRAN. Our next witness who is scheduled to testify today is Jack L. Cooper, Director of Environmental Affairs of the National Food Processors Association, Washington, DC.

Mr. Cooper.

Mr. COOPER. Good afternoon, Mr. Chairman.

I am Jack Cooper. I am director of environmental affairs for the National Food Processors Association.

NFPA is a scientifically and technically based trade association that represents more than 450 member companies that process fruits, vegetables, and meats, including canned, frozen, and aseptically packaged food products.

Mr. Chairman, I will limit my comments to two special grant programs of the Cooperative State Research Service. First is pesticide and animal drug clearance, and second is the pesticide impact assessment program. NFPA members support both programs and are very concerned that the President's current CSRS budget proposal does not recommend funding for these programs. The CSRS programs are vital to the Nation's producers of "minor" crops and animals.

For purposes of pesticide and drug clearance, "minor" crops and animals are those for which a pesticide manufacturer lacks sufficient financial incentive to seek a clearance on its own initiative. Practically every crop grown for the fresh and processing markets is considered a "minor" crop by pesticide manufacturers. The volume of crops such as peaches, green beans, and tomatoes is considered too small to warrant the expenditures necessary to obtain a pesticide registration.

NFPA believes the CSRS-funded pesticide and drug clearance program provides a vital service in obtaining residue data for manufacturers and working with them in submitting clearance requests. Without the support of this program, many pesticide and drug clearances for "minor" crops would not be sought.

Currently, these pesticide and drug clearance programs funded by CSRS are administered by Inter-Regional Project No. 4, [IR–4]. IR–4 is a long-standing, highly-effective cooperative agricultural research program involving the U.S. Department of Agriculture, the Environmental Protection Agency, the Food and Drug Administration, the State Agriculture Experiment Stations, farmers, growers, processors, pesticide and drug manufacturers, shippers, and packers.

Public Law 89–106 special grant funds made up 85 percent of the total IR–4 research budget. Specifically included are one-half IR–4 headquarters' expenses and all field and laboratory expenses for both the plant and animal field and laboratory research programs.

On the average, 225 food-use plant research projects, 60 ornamental plant research projects, and 30 animal drug research projects are conducted each year, representing approximately 65 percent of the research requests that IR–4 receives each year. During the past 12 years, IR–4 petitions have been the basis by which EPA established 450 tolerances for pesticides in foods and feeds.

Efficient, economical methods of crop protection, realized as a result of the contribution of the IR–4 project, usually result in maximized quality and yields for the growers and farmers, with ultimate savings for consumers. The pesticide clearances obtained by IR–4 provide protection for crops valued at more than $15 billion by reducing yield and quality losses caused by diseases, insects, and weeds.

The IR–4 headquarters' office has informed us that its program will be severely reduced beginning October 1 of this year as a direct result of the loss of these special grants. The IR–4 program of USDA's CSRS is quite valuable and indispensable to producers of "minor" crops and animals. Without it, farmers and ranchers will have fewer available tools at their disposal to solve pest problems as they occur.

I want to comment just for a minute on the National Agricultural Pesticide Impact Assessment Program. To ensure a safe-proof supply environment, we must also be able to assess the impact of the pesticides we use. This is why the National Agricultural Pesticide Impact Assessment Program, commonly called the NAPIAP, is so important. NAPIAP works toward the continued registration of currently registered pesticides. The program is unique and irreplaceable in that it provides a single, uniform approach to obtaining the best available data from the agricultural system. It also reviews legislation and regulations concerning pesticides as an independent, third party without a vested interest in the outcome.

Mr. Chairman, NFPA recommends that the Federal Government continue to fund the IR-4 and NAPIAP programs through CSRS's special grants program.

I would be pleased to answer any questions you may have.

Senator COCHRAN. Why is this not an appropriate matter for funding under the EPA budget?

Mr. COOPER. It very well could be. I think we are concerned with the maintenance of the program and not necessarily under whose budget it comes. I want to see the program continued. It is effective. It helps us get the tolerances and reviews what we need for "minor" crops.

If it is more appropriate for the EPA budget, that would be fine for us, as long as the program is continued.

Senator COCHRAN. The reason I ask that, of course, is a decision whether to fund this activity or not is a decision that this subcommittee doesn't exactly make. The decision would be made by the Cooperative State Research Service of the Department of Agriculture if this committee provides funding for the special grants program. There are a lot of special grants programs, and this is one of many that would be considered for funding by CSRS if they have a special grants program funded.

Now that is, I guess, the point that you are making to this committee, that we should, in your judgment, provide funds to CSRS so that they could, in turn, review this as a possible program for which to allocate resources.

If, for some reason, under budget constraints or for other reasons the committee does not provide funds for a special grants program, then I was just wondering, where else could you look for funding? It occurred to me that maybe EPA—since they are the ones who really have these views, these studies underway to determine the environmental impact of pesticides or classes of pesticides—would be interested in having the benefit of your suggestions or the suggestions of this group of scientists under NAPIAP about the possible impacts of these pesticides and risk assessment calculations.

Mr. COOPER. Mr. Chairman, the data collected by NAPIAP and the reviews certainly go to EPA, but it is largely ARS scientists who are involved in conducting the reviews, and I think for that reason, it is more appropriate for it to come out of the agriculture budget than it would be from EPA.

Senator COCHRAN. Right. You have been helpful to the committee. We appreciate your being here and testifying on this important subject for us. We thank you for your cooperation, and your entire statement describing the program will be included in the record.

Mr. COOPER. Thank you very much.

Senator COCHRAN. Thank you, Mr. Cooper.

[The statement of Mr. Cooper follows:]

STATEMENT OF JACK L. COOPER

Good afternoon Mr. Chairman and members of the committee. I am Jack L. Cooper, Director, Environmental Affairs for the National Food Processors Association (NFPA). Our organization is a scientifically and technically based trade association that represents more than 450 member companies that pack processed-prepared fruits, vegetables, meats, fish and specialty products, including canned, frozen, aseptic, dehydrated, pickled and other preserved food items. In addition, we have about 150 member companies that manufacture packaging and processing equipment, and supplies, or provide services to the food processing industry.

NFPA appreciates the opportunity to testify on the President's proposed budget for the Department of Agriculture. We will limit our comments to two special grant programs of the Cooperative State Research Service (CSRS): (1) pesticide and animal drug clearance and (2) pesticide impact assessment. NFPA members support both programs and are very concerned that the President's current budget proposal does not recommend funding for either program.

PESTICIDE AND ANIMAL DRUG CLEARANCE

These CSRS programs are vital to the nation's producers of "minor" crops and animals. For purposes of pesticide and drug clearance, "minor" crops and animals are those for which a manufacturer lacks sufficient financial incentive to try and obtain a clearance on its own initiative.

Manufacturers first seek approval of their pesticides and drugs for use on "major" crops and animals such as wheat, cotton, corn, soybeans, and dairy cows. For example, in 1982 there were 69.4 million acres of soybeans harvested. Yet, in the same year there were only 417,000 acres of tomatoes harvested for both fresh and processing markets. The economic return simply is not high enough to warrant the financial costs and other burdens associated with seeking government clearance for pesticide use on a "minor" crop that has a potential use of 166 times less than a major crop.

NFPA believes the CSRS funded pesticide and drug clearance program provides a vital service in obtaining residue data for manufacturers and working with them in submitting clearance requests. Without the support of this program, many pesticide and drug clearances for "minor" crops would not be sought.

Currently these pesticide and drug clearance programs funded by CSRS are administered by Inter-Regional Project No. 4 (IR-4). IR-4 is a long established, highly effective cooperative agricultural research program involving the U.S. Department of Agriculture (including CSRS, Agricultural Research Service, Animal Plant Health Inspection Service, and the Food Safety Inspection Service), the Environmental Protection Agency, the Food and Drug Administration, the State Agricultural Experiment Stations, farmers, growers, ranchers, processors, pesticide and drug manufacturers, shippers and packers.

How PL 89-106 Funds are Allocated for Pesticide and Animal Drug Clearances

PL 89-106 funds designated for animal drug and pesticide clearances are equally distributed between IR-4 Headquarters(HQ) at Rutgers and the four regional offices. The research projects are selected at a National Research Planning Meeting and are funded through the regional offices. The regional offices distribute funds to support research conducted at the state agricultural experiment stations in that region.

PL 89-106 funds make up 85 percent of the total IR-4 research budget; specifically included are one-half of IR-4 HQ expenses and all field and laboratory expenses for both the plant and animal field and laboratory research programs.

Effectiveness of the Pesticide Clearance Program

On the average, 225 food-use plant research projects, 600 ornamental plant research projects and 30 animal drug research projects are conducted each year, representing approximately 65 percent of the research requests received each year. During the past twelve years, IR-4 petitions have been the basis by which EPA established 450 tolerances for pesticides in foods and feeds.

Efficient, economical methods of crop protection, realized as a result of the contributions of the IR-4 Project, usually result in maximized quality and yields for the growers and farmers with ultimate savings for consumers. The pesticide clearances obtained by IR-4 provide protection for crops valued at more than 15 billion dollars, by reducing yield and quality losses caused by diseases, insects and weeds.

Impact of CSRS's Proposed Budget for FY86 on IR-4

The IR-4 Headquarters office has informed us that the following adjustments will occur as of October 1, 1985 as a direct result of the loss of PL89-106 funding:

1. The animal drug clearance program will be phased out
2. The biorational clearance program will be phased out.
3. As research funds become totally expended: The four regional and twelve satellite labs will be shut down. As a consequence (a) laboratory facilities for residue and metabolism chemistry would be lost to IR-4 and (b) funding for field studies will no longer be available.
4. HQ would have to reduce its scientific and secretarial staff to one-half of the present size to accomodate Regional Research Funding available to IR-4 via the Committee of Nine.
5. The FDA and EPA Liaison scientists assigned to IR-4 HQ will continue to function in their designated roles until all outstanding field and laboratory data are incorporated into EPA petitions or FDA New Animal Drug Applications.
6. Utilizing the on-going USDA/ARS minor use program as sources for both field data and laboratory

chemical residue data in both plant and animal drug programs, pesticide tolerances can be expected to drop from the current level of over 100 per year to 5-10 and the animal drug clearances from 6-12 per year to 1-2.

Impact of the Projected Reduction in IR-4 Funding on Growers of Crops for Processing

As I mentioned previously, practically every crop grown for the fresh and processing markets is considered to be a minor crop by pesticide manufacturers. The volume of most of these crops (peaches, green beans, sweet corn, tomatoes, peas, asparagus, pears, etc.) is considered too small to warrant the necessary expenditure to obtain a valid pesticide registration. The IR-4 project was formed out of the recognition that pesticide and drug manufacturers would not conduct the field residue studies to support pesticide applications nor would they take the initiative in preparing applications even if the residue data were available. The IR-4 project conducts the necessary residue studies and prepares petitions to EPA seeking the establishment of pesticide tolerances necessary for a pesticide to be used on a food crop. Without IR-4, very few new tolerances will be established for minor crops.

EPA Recognition of the Need for Government Support of Activities that Result in Pesticide Clearance for Minor Crops

The Environmental Protection Agency has recognized the importance of the federal government providing increased support for the registration of pesticides on minor crops. On February 21, 1985, EPA's Office of Pesticide Programs held a meeting to discuss how the agency could become more responsive to the needs of growers and others concerning registration requirements for minor uses of pesticides. EPA emphasized throughout the meeting the importance of IR-4 and developed draft recommendations to handle minor use petitions submitted by manufacturers and other groups in the same manner that IR-4 petitions are currently handled. EPA intends to give priority review to all minor use applications and to major use applications that contain several minor uses. To further expand the number of approved minor uses, EPA is considering allowing greater use of regional residue data in the establishment of tolerances.

PESTICIDE IMPACT ASSESSMENT

The National Agricultural Pesticide Impact Assessment Program (NAPIAP) is a cooperative multiagency effort that draws from the expert staff of nine USDA agencies and their cooperators in state agricultural experiment stations, extension services, and state departments of agriculture. The purpose of NAPIAP is to provide a process for managing and coordinating USDA and state activities to develop information, analyze pesticide use and impacts of pesticide regulations on agricultural productivity, and to develop information on the aggregate supply of agricultural products, product prices, and environmental issues.

The program's primary thrust is to promote informed regulatory decisions on pesticides that significantly benefit humans without causing unreasonable adverse effects on the environment, and to provide the most objective and accurate data available for defining and evaluating benefits and exposure information on pesticides having critical agricultural and forestry uses.

The Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) requires the EPA to provide the Secretary of Agriculture with copies of all proposed and final pesticide regulations for departmental comment prior to promulgation. It is NAPIAP that consolidates the concerns of individual agencies within USDA into a unified statement.

As an independent, third party without a vested interest in the outcome, NAPIAP plays an important role in reviewing legislation and regulations concerning pesticides. Perhaps most significant to NFPA and other pesticide users is the role of NAPIAP during the Special Review process (formerly the Rebuttable Presumption Against Registration or RPAR). NAPIAP is uniquely qualified to provide EPA with information about the benefits and agricultural impacts as well as exposure and risk assessment calculations and environmental impacts of pesticides or classes of pesticides undergoing EPA review. When necessary, a fast and coordinated response is possible since each state has a NAPIAP liaison person on staff who represents the interests of research, extension, and the state Department of Agriculture.

How Funds are Allocated for Pesticide Impact Assessment

CSRS contributes to the NAPIAP program in two critical ways. Research scientists at the state level serve on assessment teams organized to investigate pesticide active ingredients which have been placed under Special Review. In addition, a major portion of the CSRS NAPIAP budget is divided among the four regions and administered through regional coordinators. These funds are subcontracted within the region through a competitive mechanism and are spent on data gap research, including studies on exposure, pesticide degradation, yield and quality, environmental effects, and pesticide use surveys.

Funding for this research, like IR-4 funding, was distributed through the Special Grants Program. As mentioned earlier, funding for Special Grants have been eliminated in the proposed 1986 budget. Without CSRS funding of NAPIAP, a vital component of EPA's reregistration and Special Review programs will be lost.

Gathering data to assess the risks and benefits as well as agricultural and environmental impacts of pesticide regulatory decisions cannot be done in a more efficient and objective manner than through the NAPIAP network of scientists. As EPA accelerates its pesticide review programs, it would be unwise to remove this key source of pesticide information. Decisions to remove from registration or retain certain pesticide uses should be made with the best data available.

NFPA Conclusions and Recommendations

The IR-4 program of the USDA's CSRS is quite valuable and indispensable to producers of minor crops and animals. Without it, farmers and ranchers will have fewer available tools at their disposal to solve pest problems as they occur.

NAPIAP's importance is in its support of the continued registration of currently registered pesticides. The program is unique and irreplaceable in that it provides a single, uniform approach to obtaining the best available data from the agricultural system. It also reviews legislation and regulations concerning pesticides as an independent, third party without a vested interest in the outcome.

NFPA recommends that the federal government continue to fund the IR-4 and NAPIAP programs through the special grants program of the Cooperative State Research Service.

AMERICAN ASSOCIATION OF NURSERYMEN, INC.

STATEMENT OF JOHN S. SATAGAJ, DIRECTOR OF GOVERNMENTAL AFFAIRS AND STAFF COUNSEL

ACCOMPANIED BY:
DAVID HAMILTON, DIRECTOR, TECHNICAL SERVICES
DUANE JELINEK, DIRECTOR, HORTICULTURAL SERVICES

Senator COCHRAN. Our next witness is Mr. John Satagaj, director of governmental affairs and staff counsel of the American Association of Nurserymen, Inc., Washington, DC. Welcome to the committee. You can introduce those who are accompanying you.

Mr. SATAGAJ. I certainly will. I try to travel with experts. It is a lot safer.

My name is John Satagaj, and I am director of government relations at the American Association of Nurserymen. With me is David Hamilton, our director of technical services and Duane Jelinek, our director of horticultural services.

The American Association of Nurserymen represents over 3,200 firms in the nursery industry. They are commonly what we think of as growers, landscape firms, and retail garden centers. We are a very active industry. We are growing and, hopefully, with a good spring this year, we will do quite well. We have estimated our wholesale value is roughly $1.7 billion.

We are very interested in the research project, and I would like to go over and highlight just three areas in our testimony. You have our full written statement. I will be brief.

One thing I must mention right up front is that our members are very conservative businessmen and very concerned about the Federal deficit. It is a matter that we have discussed with them at great length. It creates a great deal of difficulties for us to come up here and discuss budgetary matters, because frankly, our first priority is controlling the Federal deficit, and it is very important to us.

At the same time, we also recognize, as what you might call a modest-sized industry, that the Government does provide a lot of services which the private sector cannot make up, and there are a number of programs, particularly in the research area, where the Government has provided a valuable service, in small, modest programs. There are three of these which I want to hit upon today.

The first one you have already heard a good bit about from Jack Cooper. That is the IR-4 program in the Cooperative State Research Service. We, too, are a "minor" crop industry. We depend heavily on the IR-4 program. The realities are that the economics for both the Government and EPA, and the private sector and the chemical manufacturers, is such that they do not bring in minor uses when they register a pesticide for use on major crops. The IR-4 program has been very successful in providing us with additional uses.

In just the last 7 years, they have tested 42 products and put on over 1,000 specific minor uses, which is major progress, and we consider the amount of money that has been spent on that a very good investment.

To give you an idea of how much further we have to go, our original request consisted of 9,400 specific uses that we could have applied to this label of major pesticides.

The entire budget for that program, as you have been talking about here, is approximately $1.4 million. We consider it a small sum compared to a lot of others, given the results we do get from it.

Just to address your question, I think in some respects, we would agree with you. If there was a way to do it within the EPA budget, we would go along with it. The only obstacle we see is that the IR-4 program is really a collection of a lot of funds. If you had to take it and start it over in EPA, it would cost a lot more than the $1.4 million. If it is going to come out of an EPA budget and go into the research, that might work there, but that would be one thing that we would be concerned about—starting it from scratch.

Let me move on to the second subject, and that is chlordane. Really, the issue of chlordane is the flip side of getting pesticides registered for minor use. In that case, we lost minor uses when chlordane was taken off the markets on major crops. A lot of times, we feel there is not enough adequate evidence that there is a problem with minor uses when a chemical is taken off the market. In the case of chlordane, it was taken off in 1977.

It is very important. It is for the purpose of quarantines of fire ants—I think you are familiar with those in Mississippi—Japanese beetles, European chafer, our major pests which were controlled by chlordane. In fact, we have a problem right now where there is a very, if you will, lucrative market in Canada for our industry's products, but we cannot ship to Canada because they won't accept our products unless we take care of those pests. These particular pests are only treatable right now by chlordane.

The entire situation, and the reason we are here today, is that when it was taken off the market in 1977, the Department of Agriculture promised to give us an alternative. In fact, in the interim, between 1977 and now, you all have been involved in directing the Department to look into these problems and to develop an alternative. We do not yet have one at this point.

As we reach the critical stage for us in terms of shipment both intrastate and, as well, to Canada, we find that is one area in which we are looking for continued research, which has been part of the budget up to this point.

The third area is the National Arboretum. I think you are all familiar with it. It is close by here, just down the street in Washington, DC.

It is a particularly good time of the year to go and see the Arboretum and the azaleas, but it is also a research center. We use it quite extensively for research products for the nursery industry, and it is very important to us. It has been operating under basic appropriations of around $3 million. However, the actual budget has been about $3.8 million. Other resources in USDA have been diverted to the Arboretum on a regular basis, and that is really, in effect, its operating budget. This year we find ourselves in a surprising situation in the Arboretum, as well. That sum was cut back to $3 million. It is kind of awkward, because it never really appeared in the budget, the additional $800,000, so there are some arguments to say that it was an increase, in fact, when it is really simply what they have been operating under for the last several years. We feel that should be restored.

Those are the three major areas. We have a number of other areas in our testimony which we believe would be an effective use of Government funds. In most cases, it is just a continuation of parent programs, if there are not too many cuts in these other areas. We feel these three in particular are important programs that we would like to see continued at a minimum at current levels. Certainly, dollar for dollar, we believe that it is a very good investment.

I think I could stop at this point, and I will take any questions you may have. I also want to point out that any time the committee has any questions on research matters, I hope you will call on us. My two colleagues here know quite a bit about the research area and would be glad to help you any time they can. Thank you, Senator.

Senator COCHRAN. Thank you very much for your testimony and for presenting us with the views and concerns that you have, Mr. Satagaj. I was not aware personally of the activity of the Arboretum that you described, which I understand to be research.

Mr. SATAGAJ. Yes.

Senator COCHRAN. And that is undertaken there. If there is no provision of those funds, what do you think the practical consequences would be?

Mr. SATAGAJ. My guess is that it is going to be a cutback immediately in some of the research positions. That would be the most easy to do.

Senator COCHRAN. How many positions are we talking about out there?

Mr. SATAGAJ. I'm not sure. Do either of you know?

Senator COCHRAN. None of you work out there?

Mr. SATAGAJ. No, no. We are all part of the Association staff.

Mr. HAMILTON. What specific programs would be affected, we would have to work that out with the Arboretum Administration.

Mr. SATAGAJ. I think that is one thing we would be curious to find out ourselves, to tell you the truth.

Senator COCHRAN. But we are looking at, what, $800,000?

Mr. SATAGAJ. $800,000, that is correct. I might add, the interesting thing about the Arboretum is that it is one area that we are trying a little bit harder to make up in the private sector. There is a group called FOTA.

Senator COCHRAN. Friends of the Arboretum.

Mr. SATAGAJ. Right, which is an effort in the right direction. I think we have to do some of our own work here if we are going to ask for money.

Senator COCHRAN. We will look into this and carefully review your statement. We appreciate your being here and thank you for taking time to add to our hearing today.

Mr. SATAGAJ. Thank you, Senator. We appreciate it.

Senator MATTINGLY. Mr. Satagaj, I thank you for your testimony here today and would simply state again how valid and important I believe the research functions of USDA really are. I am glad to see that your group realizes the threat posed to our entire economy from the continuance of excessively high deficits, and I would hope that we can find some way to maintain these very modest research, registration, and Arboretum programs at their 1985 levels.

Senator COCHRAN. Thank you.

[Mr. Satagaj's prepared statement follows:]

STATEMENT OF JOHN S. SATAGAJ

The nursery industry is one of many diverse elements of the United States agricultural community. The demand for nursery products and the number of people in the nursery industry is perhaps growing more than any other agricultural sector. Nursery production and marketing includes, but is not limited to:

a. Fruit and nut trees, berry plants and grapevines used by commercial growers and home gardeners.

b. Trees, shrubs, vines and groundcover plants used for landscape and environmental improvement about our homes, schools, churches, parks, commercial buildings and highways.

c. Seedlings for production of Christmas trees and the reforestation of private woodlands.

d. Trees and other plants for windbreak and soil conservation plantings.

While some nursery firms specialize in producing plants, others specialize in landscaping, retail garden center operations, or mailorder. Many combine two or more of these activities. Landscape, garden center and mailorder firms may produce a portion of the plants they sell, while the remainder are bought from production nurseries. Nursery plants are living organisms requiring care and protection beginning in the production nursery and continuing throughout the marketing channel.

The nursery industry, relative to all other branches of agriculture, is the most visible. Products of the nursery portion of agriculture can be seen everywhere -- on city streets, in yards, around buildings and inside homes and offices. The American Association of Nurserymen is a trade association with 3,300 member firms. Our production is agriculture, therefore we are very interested in the budget request currently before the committee.

We would also like to emphasize that our product is a significant part of overall horticultural production which is estimated to have a farm value of over $16 billion. Thus horticultural crops are the fourth largest agricultural commodity. In 1984, the nursery industry produced plants with an estimated wholesale value of $1.75 billion.

Protecting, preserving and improving the quality of the environment are major uses of the products of nursery farming. Trees, and other landscape plants help prevent soil erosion, they can be used as windbreaks, to block unwanted sights and sounds, to remove pollutants from the air, and to conserve energy. These functional uses of plants , plus the normal satisfaction and added value derived from a well-landscaped residence or business, have substantially increased the demand for the products and services of the nursery trade over the last 15 years.

To assure that the nursery industry's products will continue to be available in view of these increasing demands for their use in improving the quality of our environment and in saving valuable natural resources such as soil, clean air, and energy, the American Association of Nurserymen (AAN) has annually submitted testimony highlighting important areas of research which, in our opinion, require immediate and serious attention.

At the same time, we, as small business owners, are committed to a significant reduction in the federal deficit. We understand all too well what the deficit can do to our economy. We believe deficit reduction can best be achieved by an across the board freeze on all programs. We cannot support the wholesale elimination of modest, but vital programs simply because they represent dollar amounts easily "rounded out" of existence. By nearly any measure, our country gets more for its dollar from these modest, effective programs than from some of the "big ticket" items in the budget.

We have carefully crafted our requests to balance our desire for immediate cuts in the deficit with the need to maintain the integrity of programs vital to the nursery industry. We will make the sacrifice necessary to help achieve our country's economic goals, but we are first class contributors to our economy and we hope we will not be relegated to second class status in these budgetary considerations.

We have three major areas of concern which will be covered first in this testimony. They are the Pesticide Clearance (IR-4) Program, the lack of a replacement for the pesticide chlordane for nursery use to meet quarantine requirements, and the U.S. National Arboretum budget. Our other concerns will follow.

Inter-Regional-4 Program

The American Association of Nurserymen strongly opposes the proposed total elimination of the special grant funds for Pesticide Clearance and Pesticide Impact Assesment. Because of the high cost of pesticide registration, many producers of so-called minor use crops, including those produced in nurseries, find themselves frequently without pesticides adequate to meet quarantine requirements or the market demand for high quality plants. Chemical companies are reluctant to spend the large sums of money necessary to obtain registration for pesticides that can be used on crops that do not have large volume potential such as wheat and corn.

For the past seven years a Cooperative State Research Service special grant program known as IR-4 (pesticide clearance) has greatly assisted in obtaining more prompt registration of pesticides for our crops which are already registered for use on food or feed crops. Cancellation of that program, which costs approximately $1.4 million per year, will make it necessary for nurserymen and florists to wait six to ten years for needed pesticide registrations -- if they are granted at all.

We strongly urge the Congress to provide $2 million in support for Pesticide Clearance and $2.6 million for the National Agricultural

Pesticide Impact Assesment Program. Should these increases not be possible it is essential that these programs be maintained at the 1985 level of funding.

Chlordane Replacement Need

In order to prevent the artificial spread of hazardous pests which may live on nursery plants, international, as well as national and state quarantines and regulations have been established. This is an area of national concern since nursery crops are the only agricultural products transported with soil about the roots, thus placing a serious obligation on nurserymen to avoid moving soil borne pests which could be injurious to other agricultural commodities. The industry itself willingly spends many millions of dollars each year to comply with quarantine regulations, but it must have effective, approved means of pest control.

In 1978, agricultural uses of the pesticide chlordane were cancelled. At that time it was our understanding that the United States Department of Agriculture would initiate research to find a replacement for chlordane in nursery uses to meet quarantine requirements. We find ourselves in 1985 still in critical need of a replacement with very little progress reported by the Department.

Because of imported fire ant quarantine regulations in the South, some nurserymen cannot ship their plants outside infested areas. Nurserymen in Japanese beetle and European chafer infested areas of our country find it almost impossible to ship plants to Canadian markets because, since the banning chlordane, there is no approved pesticide for field treatment to meet Canadian quarantine requirements.

Congress directed the Agricultural Research Service (ARS) two years ago to continue research for at least two more years at Wooster, Ohio, to find a pesticide to replace chlordane. To date the Association knows of no progress in this research.

We urge ARS to continue pesticide tests initiated two to three years ago with both field and container-grown nursery plants with a definite commitment for successful results within the next year or two. If this is not feasible the American Association of Nurserymen again this year requests that $500,000 be provided from the ARS budget for Animal Plant Health Inspection Service (APHIS) Methods and Development activities to carry on the needed research to find a pesticide that will permit nursery farmers of the Southeast and Northeast to meet quarantine requirements.

US National Arboretum

The National Arboretum in Washington, D.C. is truly a treasure that belongs to all of us in the United States. Recent years have seen new vigor come to the Arboretum accompanied by great interest from the public. Indeed, an organization known as Friends of the National Arboretum has been developed by interested citizens and during the past few years has collected tens of thousands of dollars of private money to support Arboretum projects.

The basic appropriation for the National Arboretum has been approximately $3 million per year. An additional $800,000 or so has been made available from other USDA sources. As a result Arboretum programs and staffing have been able to grow. Suddenly we have been advised that only the basic $3 million appropriation will be available in future years. Without a significant part of the additional $800,000 all of the progress that has been made in recent years will be lost. We realize that budget cuts must be made, and that the Arboretum along with other agencies must bear its share. We urge, however, that even though it has been above the Arboretum's basic appropriation that the $800,000 figure not be drastically cut.

For many years now, it has been planned that the main entrance and education center for the National Arboretum be located in the old brick yard site on New York Avenue. This site was purchased by Congress for this purpose. A Master Plan has been developed, but will require an indepth planning stage and the development of architectural and engineering plans for a Plant Life Educational Center. It is estimated that these plans will cost at least $2 million. We urge that the USDA-ARS commit the necessary resources for these Planning and Preliminary Site Development Plans.

In its October, 1984 report to the Secretary of Agriculture the U.S. National Arboretum advisory council made a number of major recommendations. Among these was the establishment of a germplasm repository for environmental plants at the National Arboretum. The American Association of Nurserymen concurs with this recommendation and requests that $200,000 be allocated for establishment of this clonal repository.

Our other concerns are as follows:

AGRICULTURAL RESEARCH SERVICE

Nursery Crops Research

The nursery industry continues to be concerned with the need for an integrated, interdisciplinary approach in support of research involved with the products of the nursery trade -- plants which improve and enhance the quality of man's environment. We feel that the Agricultural Research

Service (ARS) needs to strengthen and reinforce existing nursery crops research programs in the areas of biotechnology/genetic engineering, as well as fill new positions in such disciplines as entomology and microbiology, but not at the expense of traditional research positions.

At least two genetic engineers should be added to ARS laboratories conducting research on the nursery industry's products. Such scientists could collaborate with geneticists already working to improve the quality of nursery crops and/or pathologists to develop microorganisms with superior bio-control properties. In addition, these scientists could work with an already planned, but much needed agricultural engineer to develop mechnization systems research for the nursery farming community. These individuals are needed to conduct such necessary research as 1) the use of genetic engineering procedures to develop germplasm of selected nursery crops with improved pest tolerance; 2) the development of improved, quicker procedures, such as tissue culture, for selecting germplasm with resistance or tolerance to nursery crop pests; and 3) determining the feasibility of transferring plant growth promoting properties, such as hormones, into naturally occuring organisms such as mycorrhizal fungi.

Integrated pest and crop management systems research is also needed for plants produced by nursery farmers. Much needs to be learned about nursery plants and their pests in order to achieve more effective pest control and resultant plant protection. This illustrates the need for an additional entomologist to be involved with research on high-value nursery crops.

Needed also is an expansion of the research on beneficial microorganisms, especially mycorrhizal fungi, which have the potential to increase crop productivity by enhancing growth and/or protecting plants against pathogens. To conduct this research a microbiologist is needed.

Keeping in mind the importance of reducing the existing federal deficit, the AAN urges that $450,000 be allocated within the proposed plant productivity budget of the ARS to assure that the above research positions are included.

Pesticide Research Needs

As previously mentioned, the pesticide needs of the nursery farming community to meet international, as well as national and state quarantines and regulations are critical. To insure that the plants produced in nurseries are pest free, the ARS needs to maintain a strong program of testing pesticides to determine whether or not these can be approved for quarantine certification purposes.

In many instances, quarantine pests are not deleterious to nursery crops. However, nursery business firms are restricted in marketing their crops to prevent the spread of these pests to other crops and forest lands. Gypsy moth, Mexican fruit fly, European corn borer, Japanese beetle, imported fire ant and witchweed are examples of pests which do little or no damage to nursery crops under production, but which, because of quarantine regulations, transportation of these crops is seriously restricted in both domestic and foreign trade.

Since the early 1970's, restrictions on the use of pesticides have made it increasingly difficult, and more expensive, for nursery farmers to maintain their plants in a pest-free certifiable condition. We continually urge the ARS to give greater attention to research on nursery trade pesticides needed for quarantine and regulatory purposes. For example, with the phase-out of chlorinated hydrocarbons, agricultural research has failed to provide alternative pesticides which allow our branch of farming to satisfy quarantine requirements in a practical way during production rather than special treatments after harvest.

Nursery farmers believe it is their responsibility, along with State and Federal Departments of Agriculture, to insure that plants produced in nurseries are free from hazardous diseases and insects in order to move in commerce without exposing other segments of agriculture, or the general public, to the pests which might live on nursery plants. To accomplish this however, requires that the nursery farmer have the proper "tools" -- namely pesticides which will assure nursery crops certification. These can only be made available by USDA research and testing.

It is the objective of APHIS to protect the animal and plant resources of the nation from the artificial introduction and spread of hazardous insects and diseases. Thus Congress, the Administration and citizens of the United States should look upon the role of APHIS as being preventative. APHIS has been successful in preventing the artificial introduction of many of the worlds most destructive plant insects and diseases. APHIS continues to be very innovative, despite tight budgets, in either eradicating those few new introductions of plant pests or successfully retarding the spread of new pests until acceptable means of economically controlling them have been determined. The American Association of Nurserymen fears we are approaching, if we haven't already reached, the reduced budget level that will deter further innovative efforts. However, as was emphasized previously, the AAN supports an across the board budget freeze. This includes vital APHIS programs.

As mentioned before, nursery plants are regulated to protect other agricultural crops, as well as forest and landscape plants about our homes, offices, parks and along our highways from pests that are not serious pests of nursery crops. Gypsy moth is such a pest. Two years ago the Association endorsed a modification in the gypsy moth quarantine which placed the movement of outdoor household furniture from regulated gypsy moth areas. As gypsy moth continues to spread into uninfested states, or portions of states, it is important that APHIS plays a strong role in preventing such spread and works with the State Departments of Agriculture of those fortunate states which have not had to contend with this ravenous pest. There is continuing need for APHIS to be involved in gypsy moth quarantine activities and to serve as an arbitor in working out regulations between infested and non-infested states.

APHIS also needs to develop a stronger program for the monitoring of outdoor household furniture. Currently this program appears to have a very low compliance of inspection, so to prevent spread of gypsy moth it must be strengthened.

While there are no funds designated for the Japanese beetle quarantine portion of the 1986 APHIS budget (just as there were none in 1985), there remains a limited, but significant role for APHIS in coordinating information on the natural spread of the pest. APHIS also has the responsibility to certify nursery crops free of Japanese beetle to meet quarantine requirements for Canada, the principle foreign market for U.S. nursery plants. However, as previously mentioned, since the cancellation of chlordane for nursery uses nurserymen have not had a pesticide for use during the production cycle in order to meet Canadian requirements. They are having to resort to using expensive pesticides applied to individual plants in an impractical manner which is not without serious applicator and environmental hazards. Thus, as stated earlier, we urge continued pesticide tests on both field and container-grown nursery crops and a definite committment to find a pesticide within the next year that will permit nursery farmers to meet quarantine requirements for Japanese beetle.

Because of imported fire ant quarantine regulations in the South, some nurserymen cannot ship their plants outside infested areas. The AAN therefore urges APHIS to include nursery uses in the improved control and regulatory techniques program for imported fire ant.

Witchweed is still another imported pest which is not a pest of nursery crops, but would be a devastating pest to the nation's corn crops if by some means it were to spread from the limited infested area in North and South Carolina to the major corn producing areas. Close cooperation of North and South Carolina with APHIS has not only limited the spread of this pest naturally, but has permitted eradication from limited portions of the area once infested. Since corn is a major agricultural crop, and is also one of our major export crops, this quarantine is vital to the entire country and should not become the sole responsibility of North and South Carolina. We therefore believe that this budget item should not be reduced, but should be maintained at current funding levels. This action would still meet an overall budget reduction which the Association supports.

The Association commends APHIS for its innovative efforts to maintain or improve its effectiveness in preventing the introduction of foreign animal and plant health pests not now in the United States. Foreign arrival baggage and port of entry inspection continues to be an important warranty against accidental inroduction of foreign agricultural pests. Although the Association supports a budget freeze, in the interest of protecting American agriculture, we also strongly endorse APHIS proposed budget increases for agricultural quarantine inspection. The 1984 outbreaks of Medfly, Oriental fruit fly and citrus canker confirm that increased funding is necessary to continually prevent harmful pests from entering the United States.

The State Agricultural Experiment Station (SAES) system performs almost 60% of the agricultural research in the United States. This successful system is the result of a balanced blending of local, state and federal interests, personnel, funding, program development and administration. It continues to be most effective. We thank Congress for regular increases particularly for payments under the Hatch Act. As mentioned in the introduction, the AAN supports an across-the-board freeze on all programs -- Hatch Act formula funds not being an exception. However, the opportunity for new agricultural technologies has never been greater and new research investments in these potential technologies must be made. As a result, we support a budget increase of 5%, or $8.4 million for SAES research. We strongly urge that the SAES Directors allocate a corresponding increase for funding of research classified under Research Program 3:15 "Plants to Enhance the Environment."

EXTENSION SERVICE

The AAN supports the administration budget which maintains funding for the Smith-Lever (3b&3c) portion of the Extension Service portion of the 1986 budget. However, we disagree with the proposal to totally eliminate all Smith-Lever Act, 3(d) programs, most especially those dealing with Pesticide Impact Assesment. Since chemicals remain an important agricultural pest suppression tool, continued evaluation of materials being used for this purpose is essential to the protection of America's agricultural products. Funds for this purpose are also critical to the ability of the Extension Service to alert nursery farmers and others as to the correct timing for application of pesticides in order to maximize their effectiveness of suppression. We thus urge Congress to retain $1,716,000 in the Extension Service budget for Pesticide Impact Assesment.

Nursery farming is an agricultural enterprise. As such, we feel that the federal government's contribution of minimal research is a reasonable expenditure of federal funds. This is especially significant in view of the fact that nursery farmers neither ask for nor receive crop subsidies or other support from the federal government. As a result, we urge Congress to allocate funding as outlined in our testimony to assure that nursery industry research positions and programs are provided for. We thank the Committee for this opportunity to present the views of the allied landscape and nursery trades concerning agricultural research.

COUNCIL FOR RURAL HOUSING AND DEVELOPMENT

STATEMENT OF THOMAS R. RUNQUIST, VICE PRESIDENT

ACCOMPANIED BY CHARLES L. EDSON, COUNSEL

Senator COCHRAN. Our next witnesses are Thomas Runquist, vice president, and Charles Edson, counsel, Council for Rural Housing and Development, Washington, DC.

Mr. Runquist and Mr. Edson, welcome. You may proceed.

Mr. RUNQUIST. It is good to be here, sir.

Mr. Chairman and members of the subcommittee, my name is Thomas R. Runquist. I am chairman of the First Centrum Corp. in East Lansing, MI. I appear before you today in my capacity as vice president of the Council for Rural Housing Development, accompanied by Charles H. Edson, Lane Edson, P.C., the counsel for our council.

We appreciate the opportunity to address you on the most important topic of housing for rural America.

I would like to submit the testimony into the record and just go through some of the more important points. First, that the council has been together for some 4 years, has more than 150 members, and pretty well represents a cross-section of the people in the country.

But the most important point to me, and I think to Members of Congress, I believe, in the Senate, is the need—the still very, very desperate need—for rural housing in the rural areas. In other words, there are more than 2.2 million occupiable housing units that are substandard. That technical term means that they either lack plumbing or are overcrowded; and that the incidence for this type of housing in rural areas is twice what it would be in an urban area.

Who are these projects serving? In the area of the Farmers Home Administration, of the people they serve, half of the people have incomes there of approximately $9,000 a year, average. Those people live surprisingly, on an average of $7,742 a year. So the program truly is reaching those individuals there with low incomes.

Yet while the demand for housing in rural areas is so great, the supply of credit is simply not there. There are over 550 rural counties where not even half have federally chartered savings and loans. Of those which do exist, they have an average deposit of only $3,400, which is less than half of the $7,000 or more in an urban setting.

It is also brought out that if the Government doesn't do this, perhaps the private sector could step in. I think that it should be known that the 515 program will not make a loan until it has been proven that no conventional financing has been made available.

The program itself has been tremendously cost efficient in that the average unit cost of $32,000 per unit for a rental unit is far below the national average, and the program has an excellent track record.

Another fallacy about the 515 program is that it is not a grant program. Every loan is secured by a mortgage, and that mortgage will be repaid. In fact, the default rate on the 515 project is less than 1 percent, which is a record that cannot be matched by any Federal program and probably cannot be matched by any conventional program.

So the 515 program itself is, in fact, the only hope for many of the rural Americans. It does provide good community development.

There are many good reasons for rural housing over other alternative housing, particularly today in areas of the more rural States and communities where new industry is looking at sites that many times a 515 project has helped considerably in providing housing for future employees for that new industry.

Of course, you probably are already well informed as to the number of jobs that this program represents. Of the issues on my mind, fairness is a major one. The program has been frozen for the last 2 years at $940 million. The administration currently is proposing that it not be funded for 2 years and that at the end of that time, anything left would be administered by Housing and Urban Development.

We think that it is not fair at all to virtually eliminate the program. Agreeing to a freeze is sensible, but to absolutely rule out the only hope that many of our citizens in rural areas have for housing, we do not find acceptable.

We believe that the idea of turning the program over to HUD is not sound and that HUD simply is not organized to deal with the program. Farmers Home is much more localized and has done an excellent job in shepherding the projects from a concept to the point of opening and managing those projects.

The administration does not propose to increase the funding for new construction after the 2 years, and that would require, of course, 50 percent of any new construction allocated to rural areas in the future, 50–50 between urban and rural.

But we look at, inasmuch as the HUD program has been cut so severely, that 50 percent of nothing is nothing. The housing stock of rural America is inadequate currently, as are urban areas, and, in fact, cannot support the program. The administration has determined after that, you must have housing stock in order to make a voucher program work.

So that unlike, as is mentioned in the President's Commission on Housing, where it was proposed that there is no longer a housing need in the country, that may be true in general, but in the rural areas, it is not true, because it is not a matter of just affordability, but also availability. That is, when it is mentioned in the President's Commission on Housing that in some areas they do need a development program, this is certainly one which I think would fall into that exception.

The Congress has given support of the section 515 program over the last several years. It has been a highly successful public-private partnership, and as I spoke to the Government Accounting Office last year, that it is truly a model for what can be done with these programs in providing the impetus for a response for private participation.

I thank you very much for the opportunity to testify and I would be happy to answer any questions that you may have.

Senator COCHRAN. I was interested in your observation that 50 percent of nothing is nothing, but I notice here in the report from the

Senate Budget Committee that under the HUD budget proposed for next year, there will be 100,000 new incremental units of assisted housing. Of that 100,000, it is said here that 50,000 will be allocated to nonmetropolitan areas to help take up the slack for the cutbacks in the Farmers Home Administration rural housing program.

Are those figures inaccurate?

Mr. RUNQUIST. I am sure they are accurate. But as I mentioned, Mr. Chairman, in the rural areas, the voucher is simply not adequate. The housing stock is not there to give somebody a voucher to say, "Go out and rent an apartment." They must be constructed first.

Mr. EDSON. That is the whole point, Mr. Chairman. If they were new construction units, they would be fine; we would be ahead of last year's rentals. But they are all vouchers, which they give to the tenant and say, "Find your own housing."

If the housing isn't there, the voucher won't do you much good.

Senator COCHRAN. The Budget Committee report also suggested that the Farmers Home Administration housing program benefits homebuilders more than it does those who are in need of housing. What is your reaction to that?

Mr. RUNQUIST. There is no question about it that if a homebuilder has work to do, that he can benefit from it. But the margins of profit, in my experience on those jobs, are very comparable to private industry. The reason this program has done so well for years is not because of developers, it is because: One, that the market demand is very strong—there is a strong need; and two, the availability of funding and incentives that Congress provided, particularly with the incentives for tax deductions, that that is why the program became very successful.

The incentives were there to do it, and the private sector responded. I think it is in the finest tradition of this country that that is why the program has been so successful.

Senator COCHRAN. I don't know whether you are aware of it or not, but I have been a very strong supporter of rural housing.

Mr. RUNQUIST. Yes, Mr. Chairman, I am aware of that.

Senator COCHRAN. In my State, we have a lot of citizens who are confronted with serious housing inadequacies. This program has been a very important means of assistance for those middle class and low-income families who just would not have been able to have access to housing were it not for this program. So the proposed change, and the assignment to HUD of the traditionally Farmers Home Administration housing program is troublesome to me. I am looking at it very carefully and will be scrutinizing the suggestions that are in the budget package in hopes that we can find some way to help continue to address those needs which I know exist in my State and, I'm assuming, exist in many other States, as well.

Mr. RUNQUIST. Yes, they do.

Senator COCHRAN. Your testimony today is helpful to our committee. We appreciate your being here and giving us the benefit of your assessment of this budget proposal.

Mr. EDSON. We just want to point out, Mr. Chairman, that you were instrumental 3 years ago in preventing the block grant, the fight to take the program away there. We are very thankful for your role then and certainly look forward to your continuing leadership.

Senator COCHRAN. Thank you very much for being here.

Mr. RUNQUIST. Thank you, Mr. Chairman.

[Mr. Runquist's prepared statement follows:]

STATEMENT OF THOMAS R. RUNQUIST

Mr. Chairman and members of the Subcommittee, my name is Thomas R. Runquist. I am Chairman of First Centrum Corporation, East Lansing, Michigan. I appear before you today in my capacity as Vice- President of the Council for Rural Housing and Development. I am accompanied by Charles L. Edson, Lane and Edson, P.C., CRHD Counsel. We appreciate the opportunity to address you on the most important topic of housing for rural America.

The Council for Rural Housing and Development is an association of over 150 members, including seven state associations, actively involved in the Section 515 rural rental housing program. Since its formation in 1980, the Council has been active in the legislative process and has worked closely with the Farmers Home Administration in the regulatory area to help protect and improve the Section 515 program. I think FmHA would agree that the close working relationship we have developed is one of mutual benefit.

Rural Housing Need

The Section 515 program performs a vital function today by filling a desperate need for decent, safe and affordable housing. In the FmHA service area there are over 2.2 million occupied housing units that are "substandard", meaning they lack adequate plumbing and/or are overcrowded. The incidence of inadequate housing in non-metropolitan areas is nearly double that of urban areas. About half of the households living in substandard housing in the FmHA service area have an annual income of less than $9,000. The average income for a Section 515 tenant in 1984 was $7,742.

Although housing needs are the greatest in rural America, the supply of credit to meet those needs is simply not there. Over 550 rural counties do not have federally chartered savings and loans. Rural banks' per capita assets average only $3,400, less than half of the $7,000 per capita average in urban areas. Section 515 loans are made only after it has been proven that conventional financing is not available.

Section 515 Activity

It is this mismatch of high need and low resources to meet this need that impelled Congress to create the Section 515 program. Since its inception in 1963, the program has provided over 310,000 units of rental housing, serving over 700,000 elderly and low income citizens. The program has been tremendously cost efficient and has an excellent track record. In 1984, the average cost per unit was $32,000, well under the average cost for new rental units. The Section 515 program is not a grant program; every loan is secured by a mortgage on the assisted housing and will be repaid. Defaults are less than 1%, a record unmatched by any federal housing program.

The Section 515 program often presents the only hope for many rural Americans in dire need of housing. However, the program does more than just provide shelter. Section 515 results in good community development. The concentration of people in rental units can mean less Federal, state and local tax dollars spent on street and road construction and maintenance, sewer and water construction as well as public school transportation, and less farm land being diverted to subdivision construction. Often, the location of a Section 515 project in a community has helped attract new industry by providing housing for potential employees. Money spent on Section 515 creates a community asset that lasts for many years as opposed to one shot assistance under most social service programs.

In FY 84 FmHA assisted in the production of more than 80,000 units of rural housing which was responsible for the creation of more than 100,000 jobs. It is estimated that every FmHA financed unit creates 1.3 person-years of employment, meaning over 400,000 person years of employment have resulted from the program. This further translates to billions of dollars in wages and tax revenues for local, state and Federal governments.

The Future of Rural Housing

The Section 515 program was frozen at $940 million from 1982 through 1984, and in 1985 the Program was funded at only $900 million. We believe further reductions in funding would be grossly unfair. However, due to the great financial stringency facing the Country for FY 86, we support an across the board spending freeze for all federal programs. If there were to be such a freeze, we would be willing to be included in it despite the overwhelming need that exists for more Section 515 housing.

As you know, the Reagan Administration and more recently the Senate Budget Committee, has proposed to eliminate all rural housing programs in FY 86, and following a two year period of absolutely no housing construction, it would place responsibility for rural housing with the Department of Housing and Urban Development. CRHD opposes this proposal for several reasons.

1. Eliminating the direct federal lending provided by the Farmers Home Administration assures a dramatic reduction in housing production and job creation in rural areas. The rural housing building industry relies heavily upon FmHA financing, and a moratorium on construction could decimate the already low housing stock. The lack of other available sources of credit means a serious downturn in construction trades in rural areas.
2. HUD is simply not organized to provide the kind of loan servicing of which FmHA is capable. Loan servicing would be transferred from the local county FmHA office to a HUD area office often located in a big city far away. A major reason for the great success of the Section 515 program and particularly its low default rate, is the close personal attention each project is given by local FmHA officials from the time a loan application is submitted to the time at which the project's doors are formally opened to tenants and then following the management of the project throughout its life.
3. The Administration does not propose to increase funding for new construction but starting in 1988, it would require that 50% of any new construction allocation go to rural areas and 50% to urban areas. HUD programs have been cut by 2/3's since FY 80 and the Administration's FY 86 budget would finish all housing programs. One-half of nothing is nothing. Further, it is highly unlikely that HUD will be able to provide the same kind of committed assistance which rural America has enjoyed from FmHA.
4. Housing stock in rural America is so inadequate compared to urban areas, that it could never support the voucher system as proposed by the Administration. Vouchers only work when there is an extant stock -- not the case in rural America. That already small rental housing stock would be even less after a two year cessation of new construction, because substandard housing deteriorates rapidly and during the proposed two year moratorium the financing for building any new

housing, as discussed earlier, simply will not be available.

Conclusion

Congress has supported the Section 515 program in the past and we urge you to do so again in FY 86 at the FY 85 level of $900 million. The program represents a highly successful public private partnership and should stand as a model for what can be done to benefit all Americans when the federal government provides the impetus for responsible private participation. Thank you. I would be happy to answer any questions

NATIONAL ASSOCIATION OF HOME BUILDERS

STATEMENT OF BOB HANEY, McALESTER, OK

ACCOMPANIED BY:

JAMES RASBERRY, PRESIDENT, MISSISSIPPI HOME BUILDERS ASSOCIATION

ISAAC RILEY, CHAIRMAN, RURAL HOUSING COMMITTEE OF THE MISSISSIPPI HOME BUILDERS ASSOCIATION

Senator COCHRAN. Our next witness is Mr. Bob Haney, from McAlester, OK, with the National Association of Home Builders.

We also have accompanying Mr. Haney, James Rasberry, president of the Mississippi Home Builders Association, and Isaac Riley, chairman of the Rural Housing Committee of the Mississippi Home Builders Association.

I'm glad to see you all here. We appreciate your coming to Washington for the hearing.

Mr. HANEY. Thank you, Mr. Chairman.

As you mentioned, my name is Bob Haney. I am from McAlester, OK. I have Mr. Riley and Mr. Rasberry with me today.

I am testifying on behalf of more than 135,000 members of the NAHB. I am also chairman of the NAHB Rural Committee. I am pleased to be here to testify on behalf of the fiscal year 1986 Farmers Home Administration rural programs. I am also pleased particularly to appear before you, a strong supporter of rural housing, Mr. Chairman.

We have supported major deficit reduction efforts in the past, and we continue to support that today. NAHB has a policy calling for an across-the-board spending freeze on all spending programs, including defense and entitlement programs. To reach a $50 billion deficit reduction package for fiscal year 1986, we are willing to take an additional 10 percent across-the-board cut in all domestic spending programs, including rural housing. There is no question that we must reduce the deficit, but we must reduce it fairly.

The administration's fiscal year 1986 budget proposal, action by the Senate Budget Committee, and the compromise budget plan, will terminate all new construction for rural housing, including the section 502 single family program and the 515 multifamily program. Today's need for rural housing is tremendous.

First, rural housing programs serve only families and the elderly who are unable to obtain credit from private lenders.

Rural housing programs truly serve the low-income people. Under the 515 program today, almost 75 percent of the tenants assisted have incomes below $6,000. Under the 502 program, almost 35 percent had incomes below $10,000, and the law now states that 40 percent of all section 502 borrowers must have incomes at or below 50 percent of the area median.

Third, Farmers Home rural housing programs are limited assistance programs. As the borrowers' incomes go up, the amount is reduced. When the home is sold, the assistance is recaptured.

Fourth, rural housing programs provide growth to the economy. The projected 60,000 units to be built this year will produce over 80,000 jobs, $1.5 billion in wages, and $695 million in tax revenue.

Fifth, rural housing programs are in great demand. There are over 2 million subsidized units of housing in rural areas today.

Sixth, in testimony today before the Senate Banking Committee, the General Accounting Office stated, and I quote, "Our research indicates that there is still significant need for housing among low-income rural households. Those were 80 percent of area median income."

They stated that in some FmHA offices, the waiting lists are 1½ years long, and that at the end of 1984, 116,000 applicants were waiting for housing.

About the proposed transfer of Farmers Home to HUD there is no question that the transfer of rural housing programs to HUD would not be an effective way of servicing the housing needs of rural people. It is not really a transfer. It is a termination of the Farmers Home Administration programs.

LACK OF CREDIT IN THE RURAL AREAS

It has long been suggested that rural housing credit needs to be financed by the private sector. Substituting FmHA direct lending system with guarantees to private banks to make loans is flawed for a number of reasons: First, many rural areas have no banks;

Second, a loan guarantee program has already been tried unsuccessfully in the rural areas;

Third, people in rural areas cannot afford the program without additional credit assistance;

Fourth, rural banks do not have sufficient savings or desire to make loans to low-income people;

Fifth, rural banks have been having foreclosure problems lately and may not be in a position to make housing loans; and

Sixth, it would be impossible for rural banks to immediately take over the lending function.

Mr. Chairman, rural housing has already taken its share of cuts. Since fiscal year 1980, approximately 30 percent of the units have been cut.

PROGRAM IMPROVEMENTS

We recognize that there is a need for program improvements. Resolutions passed by our board of directors in January would improve the FmHA delivery system by calling for: One, a better system of disposing of FmHA inventory. The volume of inventory slows down the rate at which FmHA will make new loans.

Two, the use of private fee inspectors and appraisers to accommodate the shortage of personnel in FmHA offices and the elimination of the current priority system to speed up application approval.

Third, we passed a resolution for quarterly pooling of FmHA funds. This will better help allocations in a timely manner.

Furthermore, we urge FmHA to follow the lead of VA and FHA in eliminating the subdivision approval procedure. This would be in compliance with the 1983 Housing Act, which calls for complete subdivision reciprocity among the three agencies.

In conclusion, Mr. Chairman, rural housing programs have had a record of great accomplishments and achievements in serving the shelter needs of rural Americans. They are providing the housing safety net for lower income Americans.

We urge Congress and this subcommittee to adequately support funding for rural housing programs and to maintain current FmHA rural housing credit and the delivery system.

Thank you for the opportunity to make the presentation. I will answer any questions, sir.

Senator COCHRAN. Thank you very much, Mr. Haney.

You heard a couple of questions that I asked of the previous witness about the HUD housing program and whether or not it would be a suitable substitute for the Farmers Home Administration housing program. Let me read to you one of the statements in a publication issued by the Senate Budget Committee. I would like to have your reaction to it:

> HUD programs are better targeted to very low income families. Sixty percent of Farmers Home Administration home ownership assistance is provided to families who typically have incomes of 150 percent higher than average HUD-assisted families. Although it serves fewer very low income families, the Farmers Home Administration home ownership program receives two to three times as much funding as the Farmers Home Administration rental housing assistance programs, which, like the HUD programs, assist the neediest families.

That is the statement. The tenor of it is that the HUD programs are targeted to the poorest families and that the Farmers Home Administration programs end up costing two or three times more money than the HUD housing program does. What is your reaction to that?

Mr. HANEY. We have, in the past year, implemented a 40-percent targeting program in the single-family program. This has had a drastic increase in the number of families that are targeted. Part of the problem has been the fact that the FmHA has not had the staff to package and concentrate and target on these lower income persons.

I was visiting with a State director this morning from Oklahoma over the telephone, and with his limited personnel, he is having problems targeting these areas.

Senator COCHRAN. I know that we always run into a problem during this time of year. I know in our State, what is on the front burner is the Farmers Home operating loan program and the need to process the huge influx of loan applications from agricultural producers who have to go through the same office and the same county director as do the applicants for new housing under the Farmers Home housing program. There is always that problem. I run into it every time I go home about how crushed the local offices are.

I know they authorized overtime for county offices, and I know in my State of Mississippi, we have added 42 additional employees providing additional staff help. But invariably, most of that extra assistance is going to go to the farmer application side of the office. That is just the way it happens. Then in the other parts of the year, you try to catch up and handle the housing applications and process all of them.

So I don't know; I think in any area where you are going to have a lot of agriculture, you are going to have that problem this time of the year.

Mr. HANEY. Yes, sir; we end up with, typically, the 6 to 8 weeks at the very most an office can devote out of an entire year to housing. I might say that NAHB and the Rural Housing Committee, specifically, will do anything we can to work with either this committee or the Farmers Home Administration in helping to correct these problems, because it also puts the builder in a bind. When he gets everything coming out right at the beginning of winter, then we have got to carry over 6 or 8 months, and our cost figures change, as does everything else, because of the delays during the building season.

Senator COCHRAN. I am going to defer any other questions I have for you and recognize Senator Sasser, a very impressive member of our committee who is here today from the neighboring State of Tennessee.

Senator SASSER. Thank you very much, Mr. Chairman, for that very gracious introduction.

Let me say to you, Mr. Haney, that you and your colleagues should have been up about four floors in this building just a few moments ago. The Secretary of Housing and Urban Development, Mr. Pierce, was testifying up there, and he indicated that they would be able to handle the rural housing problem. And I asked him, "Mr. Secretary, aren't you reducing your staff?"

He replied, "Yes. We reduced it 25 percent over the past 4 years, and we are going to reduce it more."

And I said, "Well, you are reducing the number of your offices across the country?"

"Yes; we have reduced those. We are going to reduce them more."

Yet he maintained that, even though they are contracting staff, even though they are shrinking the number of HUD offices across the Nation—and in Tennessee, which is 625 miles long, they are cutting back to one office—they still can service the rural housing needs.

What do you say about that?

Mr. HANEY. Senator, from Boise City, OK, to the nearest HUD office, Oklahoma City, is 327 miles, or 654 miles if a fellow has to make a round trip. This, to me, is not the type of—or I do not feel that this type of delivery system can be duplicated out of the Oklahoma City office. The fact that it is the Housing and Urban Development, HUD, also indicates to me that there will be some difficulties.

Senator SASSER. How many Farmers Home Administration offices do you have in Oklahoma, do you know?

Mr. HANEY. Yes, sir; we have 8 district offices and 67 county offices. Seventy-five offices service us.

Senator SASSER. Quite frankly, I think the shrinkage and contraction of the Farmers Home Administration rural housing program does, as you indicate, effectively kill the program. It means termination of efforts to have adequate funding for rural housing across the country, and I am very concerned about it, because I have seen the Farmers Home Administration housing program over 15 years in my State be responsible for bringing to farm families the decent housing that otherwise may not have been available. It has been responsible, I think, for a dramatic uplifting in the quality of life of farm families all across this country.

I am saddened to see the efforts made to terminate the program. I applaud you in your testimony here today.

No questions, Mr. Chairman. I just want to make that statement.

Senator COCHRAN. Thank you, Senator.

We appreciate your taking the time to be here, Mr. Haney, and also for adding good judgment by bringing those two stalwarts from my State with you. Mr. Rasberry and Mr. Riley are good friends and are leaders in the State of Mississippi, and it is good to get a chance to say hello to them and welcome them to the subcommittee with you. Your testimony is very impressive, and it will receive the most careful consideration possible by this committee. Thank you very much.

Mr. HANEY. Thank you, Mr. Chairman.

[Mr. Haney's prepared statement follows:]

STATEMENT OF BOB HANEY

My name is Bob Haney and I am a homebuilder from McAlester, Oklahoma. I am testifying on behalf of the more than 130,000 members of the National Association of Home Builders (NAHB). NAHB is a trade association of the nation's homebuilding industry, and I am chairman of the NAHB Rural Committee. I am pleased to be here to testify on the FY'86 appropriation for the Farmers Home Administration (FmHA) rural housing programs.

Mr. Chairman, we strongly urge this Subcommittee to adequately fund and support the Farmers Home Administration programs which have helped nearly two million families, the elderly and the handicapped afford housing in rural areas. The conditions which gave rise to authorization for FmHA to make housing loans in 1949 still exist today, but the commitment to providing housing in rural areas is in serious doubt.

The elimination of new construction in rural areas would add another jolt to the already hard pressed economies in rural America. It would cut through the safety net for low income families seeking decent and affordable housing in rural areas.

Mr. Chairman, we have supported major deficit reduction efforts in the past and we continue to support them today. NAHB has policy calling for an across the board spending freeze on all spending programs, including defense and entitlement programs. To reach a $50 billion deficit reduction package for FY 86 we are willing to take an additional 10 percent across the board cut in all domestic spending programs including rural housing. There is no question that we must reduce the deficit but we must reduce it fairly.

We had about 200 rural builders in Washington last month representing over 15,000 builders across the country who build in rural areas. Most of them are small builders who build fewer than 25 homes a year. They were here to support the continuation of rural housing programs and to oppose the Administration's proposed transfer of rural housing programs to HUD. Many of them would be put out of business without these programs.

The Administration's FY'86 budget proposal, action by the Senate Budget Committee and the compromise budget plan would terminate all new construction for rural housing including the Section 502 single-family program and the Section 515 multifamily program. The only money provided for rural housing in the Administration's FY'86 budget proposal is for servicing. The $30 million budgeted for the Section 502 program is simply for repairs and the $50 million provided for rental assistance is to service or extend contracts for 4,550 existing units.

The following chart shows the impact of the reduction in spending for these programs.

Rural Housing Programs

Program		FY'85	FY'86	Percent Decrease FY 85
Section 502	Amount	$2.3 billion	$30 million	- 98.7
Single Family	New Construction	33,300 units	0 units	- 100
Homeownership	Existing	19,090 units	0 units	- 100
Program			(repair only)	
Section 515	Amount	$900 million	$0	- 100
Multifamily	New Construction	24,225 units	0 units	- 100
Rental Program	Existing	275 units		- 100
Rural Rental	Amount	$168.25 million	$50 million	- 70.3
Assistance	New Construction	4,750 units	0 units	- 100
	Existing	10,500 units	4,550 units	- 56.7

Source: FmHA; compiled by NAHB

Need for Rural Housing

-- Rural housing programs serve only families and the elderly who are unable to obtain credit from private lenders.

-- Rural housing programs truly serve low income people. Under the Section 515 program, almost 75 percent of the tenants assisted have incomes below $6,000. Under the Section 502 program almost 35 percent had incomes below $10,000 and the law now states that 40 percent of all Section 502 borrowers must have incomes at or below 50 percent of area median. If there is a safety net, surely it would be designed to meet the shelter needs of these low income people.

-- Rural housing under the Section 502 program is a limited assistance program: as the borrowers' income goes up, the assistance is reduced. When the home is sold, the assistance is recaptured. Assistance under the Section 515 program is also reduced as the ability to pay increases.

-- Rural housing programs provide growth to the economy. For every FmHA unit projected to be built this year, 1.4 man years of employment are created. The projected 60,000 units to be built this year will produce over 80,000 jobs, $1.5 billion in wages and $695 million in federal, state and local tax revenue.

-- Rural housing programs are in great demand. There are over 2 million substandard units of housing in rural areas.

-- In testimony today before the Senate Banking Committee the General Accounting Office (GAO) stated "Our research indicates that there is still significant need for housing among low-income rural households (those with 80 percent of area median income".) They called for among other things reductions in costs and outreach efforts to very low-income households and households living in substandard housing. They stated that in some FmHA offices waiting lists are one and one-half years long and that at the end of 1984, 116,000 applicants were waiting for housing.

HUD Transfer

There is no question that the transfer of rural housing programs to HUD would not be an effective way of servicing the housing needs of rural people. It is not really a transfer of programs to HUD; the existing Farmers Home programs are to be terminated. Rural and urban areas would then share whatever money is appropriated for HUD programs on a 50-50 basis. Both rural and urban America would lose under this system.

The voucher system projected to take care of both rural and urban needs will not be effective in rural areas where there is frequently insufficient housing for vouchers to work. HUD's Section 202 program is restricted to the elderly. Over 50 percent of FmHA's Section 515 program currently serves families.

In addition, Farmers Home has an existing delivery system which includes 1,930 county offices, 270 district offices, and 46 state offices to service rural people. Families needing assistance would have to travel three or four hundred miles in some cases to be accommodated by HUD's offices. HUD also has no experience in rural areas and could not duplicate the FmHA delivery system.

It should also be emphasized that rural housing needs cannot be looked at as simply an extension of urban needs. Proportionately, there are greater levels of poverty, a greater lack of credit, and more inadequate housing stock in rural areas.

Lack of Credit in Rural Areas

It has been suggested that rural housing credit needs be financed by the private sector. Substituting the FmHA direct lending system with guarantees to private banks to make loans is flawed for a number of reasons:

- Many rural areas have no banks. Over 500 counties have no federal savings and loan institution.
- A loan guaranty program has already been tried in rural areas and was not successful.
- People in rural areas cannot afford the program without additional credit assistance.
- Rural banks do not have sufficient savings or desire to make loans to low-income people. Rural areas have only 17 percent of the nation's savings and banks are more likely to make more profitable use of their portfolio than to lend it to low income people for housing.
- Rural banks have been having foreclosure problems and may not be in a position to be making housing loans.
- It would be impossible for rural banks to immediately take over this lending function. Existing federal credit programs should not be phased-down until such private sector alternatives are in place and proven workable.

Rural Housing Has Already Taken Its Share of Cuts

Mr. Chairman, rural housing programs have already taken sizeable cuts. The total number of units assisted by FmHA has declined 30% from FY'80 to FY'85. The following charts show the program reductions.

Total Incremental Units Assisted
(Fiscal Years)

1980	1981	1982	1983	1984	1985 (estimate)	1986 (Admin. Budget)
150,169	128,506	113,440	93,261	86,630	104,600	4,550

Source: FmHA; compiled by NAHB.

The number of units provided under the Section 502 Program declined by more than one-third from FY'80 to FY'85 1985.

The number of units provided under the Section 515 program declined from FY'80 to FY'85, with a similar drop in rental assistance.

Major Programs/Units
(Fiscal Years)

	1980	1985 (estimate)	1986 (Admin. Budget)	Percent Decrease 1980/1985	Percent Decrease 1980/1986
Section 502	82,247	52,390	0	-36.3%	-100%
Section 515	33,100	25,500	0	-23.0%	-100%
Rural rental assistance	20,000	15,250	4,550	-23.8%	-77.5%

Source: FmHA; compiled by NAHB.

Program Improvements

Mr. Chairman, we recognize that there is a need for program improvements and acknowledge that these programs have not operated with uniform effectiveness throughout the country. Resolutions passed by our Board of Directors in January which would improve the FmHA delivery system call for:

- A better system of disposing of FmHA inventory. The high volume of inventory homes slows down the rate at which FmHA will make new loans.
- The use of private fee inspectors and appraisers to accommodate the shortage of personnel in FmHA offices and elimination of the current priority system to speed up application approval.
- Quarterly pooling of FmHA funds. This will better help use allocations in a timely manner critical to meeting the housing needs of rural people.

We urge FmHA to follow the lead of the Veterans Administration (VA) and the Federal Housing Administration (FHA) in eliminating the subdivision approval procedure. This would be in compliance with the 1983 Housing Act, which calls for complete subdivision reciprocity among the three agencies.

We would be pleased to work with the subcommittee in any way we can to both lower program costs and to improve the current delivery system.

Conclusion

Rural housing programs have had a record of great accomplishments and achievement in serving the shelter needs of rural Americans. They have provided an effective mortgage delivery system for new residential construction critical to providing needed accessibility to credit. They are providing the housing safety net for lower income Americans.

We urge Congress and this Subcommittee to adequately support funding for rural housing programs and to maintain the current FmHA rural housing credit and delivery system.

Thank you for this opportunity to present our views. I will be happy to respond to any questions.

BARNES-AASTAD SOIL AND WATER CONSERVATION RESEARCH ASSOCIATION

STATEMENT OF WILLARD R. MICKLISH, DIRECTOR

ACCOMPANIED BY DR. JOHN F. STOCK, DIRECTOR

Senator COCHRAN. Our next witness is Willard Micklish, director, and Dr. John F. Stock, director, of the Barnes-Aastad Soil and Water Conservation Research Association of Morris, MN.

Mr. MICKLISH. Mr. Chairman and Senator Sasser, we are happy to be before your committee. We have been here before; our organizations have come before your committee for over 15 years. We would like to submit this testimony which we have for the record. It is for you, and I will make a few summary comments.

The Barnes-Aastad Soil and Water Conservation Research Association is a support group for a research facility in west central Minnesota. We have businessmen and farmers from the two Dakotas and Minnesota in our organization.

Dr. Stock, to my left, is a medical doctor and an internist, and I think he is unique in the fact that he is also an active dairy farmer in Minnesota.

These are difficult times for our farmers. We do not feel that pouring in more money is going to solve the farm problem today. We feel that we have some ideas for your committee that have to do with the reducing of costs of production with less pesticides, less herbicides, and less tillage.

Presenting these ideas to your constituents, I think, is important, because it comes up with a solution to this situation. I would like to address this to the solution rather than to the point of more money. We are basically asking for what the OMB is saying, which is a flat budget for the agricultural research.

Senator Burdick, we are very happy to have you just joining us. I remember the last time that we were here I told you I was with Cass Clay Creamery, and you said there was a young lawyer way back when who was the lawyer for our company.

Senator BURDICK [presiding]. I got him off on the right foot.

Mr. MICKLISH. I gave Don Omish your message, and he would like to extend a hello to you. I would like to introduce Dr. John Stock, our medical doctor and also our active dairy farmer to you to explain a few of our ideas in reducing the cost of production.

Dr. STOCK. The current financial difficulties facing agriculture probably are not going to be solved by larger, more costly Government programs. The combinations of low farm prices and high crop production costs has dealt a serious blow to the entire agribusiness complex. Higher prices, through whatever mechanism, would provide a quick solution, but relying on any method that provides consistently higher prices would be artificial and quite costly. Therefore, lowering the cost of production provides the most promising long-term solution.

ARS, in general, and the Morris Station, in particular, are addressing these solutions. The solutions include minimum or no-till systems, less herbicides, less fertilizer, and less insecticides.

Less herbicides usage may be possible if we can learn to apply one of nature's own mechanisms for controlling weeds and insects. This area of study is allelopathy, which simply is the study of how plants' own mechanisms suppress growth of competing weeds and insects. Allelopathy, the new area of research, is the likely wave of the future. Examples of allelopathy are many and obvious when we think about them. Sunflowers, when planted, simply compete very well with all weeds. If you look at a field of sunflowers, even though very few herbicides have been used, the field is perfectly clean. Something the sunflower releases is inhibiting the growth of weeds.

Alfalfa is a similar plant. Many gardeners know that the marigold secretes an odor that drives aphids away. That is still another example. Dry citrus fruits are further examples.

ARS is starting to spread knowledge through a computer network linking key farmers and advanced scientists. This effort to quickly focus research on the profitable application of new knowledge is essential to make economic gains that avoid costly nonproductive avenues of research.

We urge you to support the proposed flat ARS budget. We feel the small investment in research holds the greatest potential for profitable, nonsubsidized agriculture. At this point, we welcome any questions.

If I may, Mr. Chairman, just last week, seven scientists from NDSU, North Dakota State University, came to the North-Central Soil and Water Research Center at Morris, and were so interested in this allelopathy, which they feel is the wave of the future in reducing pesticides and herbicides, that there is going to be a working relationship between NDSU and this research center. So we think there is a great hope to come to the solution, research-wise, rather than dollar-wise.

Senator Burdick. Gentlemen, thank you for your testimony. I don't have any dollar figures before me, and the testimony has just been given that the Morris Laboratory was to have a scientist replaced who was transferred from the facility in 1984. Does that represent an increase in the budget figures?

Dr. Stock. No; it does not. We would be keeping the dollars that scientist had and applying them to a new area of applied research, basically, taking the research that is carried out at the Morris Laboratory and making it apply to low-cost production.

Reams of information are available about conservation tillage, but the application of it is not yet easily obtained.

Senator Burdick. Thank you, gentlemen.

Mr. Micklish. Very good. Thank you.

[Mr. Micklish's prepared statement follows:]

Statement of Willard R. Micklish and John F. Stock, M.D.

Our association has appeared before this committee in each of the past 15 years in support of overall USDA-ARS research, and in particular for support of the ARS research conducted at the North Central Soil Conservation Research Laboratory, Morris, MN. We wish to thank you for the privilege and opportunity to once again appear before you in support of the laboratory's research program. As active board members of our association of interested farmers and businessmen, we speak to the concerns of the agricultural community located in the Northern Corn Belt where the laboratory is situated.

The ARS has implemented a plan to investigate agricultural problems of national importance with the assumption of finite resources. To assure maximum funding possible for bench research during these times of restricted budgets, the administration of ARS has actively and efficiently streamlined the agency for more efficient operations, cost-effectiveness, and accountability. We support this action which allocates available funds to laboratories having high priority research programs.

The research mission of the North Central Soil Conservation Research Laboratory at Morris, MN, is to develop efficient conservation production systems for northern climates. Research to accomplish this mission is being conducted cooperatively with the Agricultural Experiment Stations of the University of Minnesota, South Dakota State University, and the USDA Northern Grain Insects Research Laboratory at Brookings, SD.

The research team at the Morris Laboratory conducts ongoing research to develop and improve soil and water conservation and increase the efficiency of agricultural production. Emphasis is placed on reducing the input requirements for crop production. One activity includes research to limit the number of passes of field equipment, thereby reducing fuel requirements, reducing adverse effects of soil compaction due to wheel traffic, and promoting better residue management encouraging better soil conservation. Other research activities are designed to improve the efficiency of applied fertilizer for reduced tillage systems and to limit the application of expensive chemicals by employing integrated weed and insect management systems. The laboratory's history of research accomplishments is to be envied, yet much remains to be accomplished.

As producers of agricultural products, we are concerned that future resources be allocated to insure improved crop production efficiency while maintaining our priceless agricultural soil base. It is essential that the United States maintain its dominant position in agricutlural production while protecting and preserving its resources. As farmers, we are being asked to provide domestic and world food and fiber needs with little profit and often at a loss. Obviously, this cannot continue without major disruptions in our overall agricultural production system with which we are so accustomed. As solutions are found for this problem of historic importance, we are confident that part of the solution will be additional knowledge obtained as a result of continuous, long-range basic agricultural research and its application to the Nation's farmlands.

The research program at the Morris Laboratory focuses on providing knowledge and recommendations regarding cost-effective production systems for application to the highly productive areas of the Northern Corn Belt. The Morris Laboratory wishes to have a scientist replaced who was transferred from the facility in 1984. This person will be used to integrate the various components of cost-effective production systems into a user-oriented model. This will allow more effective extrapolation of the basic physical processes involved to areas of other topography, climates, and soils for the purpose of determining the best production system.

NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

STATEMENT OF CLARENCE DURBAN, VICE PRESIDENT

Senator BURDICK. Mr. Clarence Durban, vice president, National Association of Conservation Districts.

Mr. DURBAN. Thank you, Mr. Chairman, members of the subcommittee.

My name is Clarence Durban, and I am vice president of the National Association of Conservation Districts. Our association represents the conservation districts all across the United States and Puerto Rico and the Virgin Islands, the District of Columbia, and Guam. We provide assistance to over 2½ million cooperating landowners in those areas.

We are responsible for developing and carrying out programs for the conservation and development of soil and water resources at the local level along with assistance by both State and local conservation agencies. We are responsible for coordinating various sources of assistance to meet both the local resource needs, and in this role of coordination, we are probably the first to recognize when one of the cooperating agencies in our organization fails to meet commitments.

For that reason, I am sure you can understand the concern that was expressed by many conservation districts across the country when we were made aware that the President recommended a 67-percent reduction in Soil Conservation Service appropriations. That represents not only tremendous reduction of Federal assistance, but it means that assistance from both State and local organizations and other sources cannot be utilized in a timely manner as it should have been.

We also, as a result of those proposed cuts, recognize that there has been no consultation at all as to how the local and the State conservation agencies might work out any order for the transition of less Federal involvement.

For those reasons and many others, we strongly object to that proposed budget.

We are, however, sensitive to the need to reduce Federal deficits and to work toward a balanced budget. For those reasons, our National Council voted at its annual convention in February to recommend a hold-the-line budget for fiscal year 1986. We believe that to be a fiscally responsible position, recognizing that even a hold-the-line budget is a reduction because of the buying power of inflation.

Our National Association did not take that position lightly. We believe that Federal budget deficits are having adverse effects on the entire agricultural economy, and I, as a practicing farmer, recognize that very drastically. But we also believe that all other agencies should be treated in a like manner. There have been many proposals as to budget cuts. The paper that I have briefly gone over, and you have a full copy of, lists the proposed budget. It lists what NACD has, for a number of years, recommended as the needs of the soil conservation districts in the soil conservation movement.

We, in our testimony in our deliberations, had debated and suggested that a hold-the-line budget was one that would be fiscally responsible, and we continue to believe that that is the case.

Mr. Chairman, that concludes my formal testimony. You have the entire paper there, and in the essence of time, I will conclude my remarks. If you ask questions, I will attempt to answer them.

Senator BURDICK. Your figure is $609.5 million. The budget is $452.7 million, and your needs are $771 million.

Mr. DURBAN. Yes, sir.

Senator BURDICK. So you have taken a compromise position, $609.5 million.

Mr. DURBAN. Yes, sir, Mr. Chairman, we have.

Senator BURDICK. I notice in your statement, Farmers Home Administration functions, soil and watershed protection, RC&D loans have been zeroed out completely. Is that correct?

Mr. DURBAN. Yes, sir; that was the proposed budget, sir.

Senator BURDICK. You think that is going too far?

Mr. DURBAN. We think so, sir, yes.

Senator BURDICK. The committee will look at this very carefully in view of your testimony, and we thank you.

Mr. DURBAN. Thank you.

[Mr. Durban's prepared statement follows:]

Statement of Clarence Durban

PROGRAM	FY85 BUDGET	FY86 BUDGET	RESOURCE NEEDS	NACD RECOMMENDATION
		(in million dollars)		
SOIL CONSERVATION SERVICE				
Conservation Operations	356.4	354.2*	396.1	356.4
Grants to States & Districts	-0-	-0-	30.0	-0-
Special Areas Cons. Prog.	-0-	-0-	30.0	-0-
River Basin Surveys	14.7	11.6*	16.0	14.7
Watershed Planning	8.8	6.9*	9.0	8.8
Watershed Operations	177.3	61.4*	200.0	177.3
Emergency Flood Repair	5.0	1.2*	10.0	5.0
Great Plains Cons. Prog.	21.3	7.4*	30.0	21.3
RC&D	26.0	10.0*	50.0	26.0
RAMP	(13.7)	(3.4)	(30.0)	(13.7)
TOTAL SCS APPROPRIATIONS	609.5	452.7*	771.1	609.5
ASCS				
ACP	190.0	-0-	210.0	190.0
FIP	12.5	-0-	13.5	12.5
Water Bank	8.8	-0-	10.0	8.8
Special Areas Cons.	-0-	-0-	10.0	-0-
Colorado River Salinity Prog.	-0-	-0-	13.0	-0-
Emergency Conservation Prog	-0-	-0-	15.0	-0-
TOTAL ASCS	211.3	-0-	271.5	211.3
AGRICULTURAL RESEARCH SERVICE				
Soil & Water Cons. Res.	59.5	59.6	65.7	59.6
COOPERATIVE STATE RESEARCH SERVICE				
Hatch Act	156.5	156.5	160.0	156.5
McIntire-Stennis	13.1	13.1	13.7	13.1
Rangeland Research	.5	-0-	2.0	.5
EXTENSION SERVICE				
Renewable Resources Ext.	2.5	-0-	15.0	2.5
FARMER'S HOME ADMINISTRATION				
Rural Community Fire Prot.	3.25	-0-	7.0	3.25
Soil & Water Loans	31.0	-0-	50.0	31.0
Watershed Prot. & Flood Pre.	14.0	-0-	25.0	14.0
RC&D Loans	2.0	-0-	5.0	2.0

*CO program includes $154.2 million for phase down costs leaving a continuing program of $200 million. The total budget figure represents $252.7 million for phase out of programs.

Mr. Chairman, members of the Subcommittee, I am Clarence Durban, Vice President of the National Association of Conservation Districts (NACD). Our association represents the conservation districts and their state associations in all 50 states, Puerto Rico, the Virgin Islands, District of Columbia, and Guam. Conservation districts are providing assistance to over 2 1/2 million cooperating landowners.

Conservation districts are responsible for developing and carrying out programs for the conservation and development of soil and water resources at the local level, under the general supervision of state soil conservation agencies. In carrying out these plans, conservation districts seek out and use the assistance of many state and federal agencies. The conservation district is responsible for coordinating these various sources of assistance to meet local resource needs. In this role of coordination, the conservation district is probably the first to recognize when one of its cooperating agencies fails to meet commitments.

Therefore, I am sure you can understand the concern expressed by conservation districts when the President recommended a 67% reduction in SCS appropriations by the end of FY 86. Not only does this represent a reduction of federal assistance, it also means that assistance from state, private and other sources cannot be utilized in a timely manner.

The proposed budget for SCS represents one of the largest cuts proposed for any agency in the federal government. Further, this cut is being proposed purely on the basis of fiscal policy. No studies have been conducted which would indicate that the need for the agency is any less today than its need in previous years. Nor have there been any indications of misuse of funds that would indicate wasteful expenditures.

Furthermore, there has been no consultation with state and local conservation agencies to work out any orderly transition to less federal involvement.

For these and many other reasons, we strongly object to the President's proposed conservation budget. We are, however, sensitive to the need to reduce federal deficits and to work toward a balanced budget. For these reasons, the Council of NACD voted at its annual convention in February to recommend a hold the line budget for FY 86. We believe this is a fiscally responsible position. In effect, it represents a reduction in buying power because of inflation.

The NACD Council did not take this position lightly. They believe that federal budget deficits are having adverse impacts on the entire agricultural economy. They also believe that other agencies should be treated in a like manner.

We thank you for the opportunity to present the views of this association.

SOIL CONSERVATION SOCIETY OF AMERICA

STATEMENT OF NORMAN A. BERG, WASHINGTON REPRESENTATIVE

Senator BURDICK. Norman Berg, the Soil Conservation Society of America, Ankeny, IA. When did you go to Iowa?

Mr. BERG. I am still here. The headquarters, Mr. Chairman, is in Ankeny. That is out there where we can look out and see the farmland once in a while.

I am Norman Berg, and I am a Washington representative of the Soil Conservation Society of America. We are a private, nonprofit organization founded in 1945. We have never had an outreach here in Washington, DC, until I took this part-time position a few years ago.

We have 13,000 members dedicated to advancing the science of land use, and as a charter member and a fellow of the society, really, I am really pleased to be able to represent them.

Our major contribution is to publish a journal six times a year. Two years ago, in 1983, we put out a special edition on conservation tillage, and then in January and February of this year, we put out a special edition on nonpoint water pollution. These are filled with excellent research writings and other activities that relate to the soil and water conservation land use area.

As you know, Senator Burdick, on the 27th of April, the Soil Conservation Service will have served 50 years. We are having a banquet here in town with over 1,000 people. Many in the States have had events already. They will have events to follow. There is a lot of interest in the soil and water conservation area and the work of the conservation districts, and there is great concern about what has been suggested in the administration's budget for all of the soil and water conservation activities at the Department of Agriculture.

When I left as Chief of SCS in 1982, we had 14,000 full-time equivalent staff and about $600 million a year to operate from.

Each year since, the administration has recommended some severe cuts. The Congress, in its wisdom, has seen that that shouldn't happen, but this year, the proposals for fiscal year 1986 are really very, very severe. When you go down the items, there are 23 items that relate to the soil and water conservation activities. There are only three that are suggested for funding. The money in the rest of them is for phasing out, RIF'ing between 9,000 and 10,000 career conservationists.

Earlier stories suggested the serious consideration of the complete termination of the Soil and Conservation Service. They did leave $200 million in for 5,000 people. That would occur in 1987. There is no money for the other programs that have served the constituents of the conservation districts all of these years, and there is nothing in the cost-sharing activities in the ASCS.

In looking at the Senate budget recommendations, they do suggest a lesser reduction of some sort in USDA conservation programs. What I have seen, and I don't have the details on this, does suggest that budget authority would be down 23 percent in fiscal year 1986. That would represent a serious reduction, but nowhere near as serious as what is proposed by the administration.

The net Federal spending, after crediting receipts for such things as timber sales, and grazing and user fees for the management of the public lands, management of the Forest Service and BLM and the conservation programs on the 1.4 billion acres of private lands in this country totals about one-half of one-tenth of 1 cent out of every Federal dollar. Now, we, as an organization, will also support some sort of an across-the-board, hold-the-line if all Federal activities are treated the same.

We are not saying it for a special interest, because we are conservationists. We work from public funds. But there are serious problems, as we have shown in the tables attached to my testimony, that still need to be solved in some way by some level of government. Unfortunately, the process that we go through each year of the administration's suggesting a very low budget and then Congress having to put it back to a previous year tends to detract from the long-range need for better linkage of some of our policies relating to conservation and the farm policies of the Nation.

This morning, several of us were before the Senate Agriculture Committee talking about the need for a strong sodbuster law, a 30-million acre conservation reserve, a stronger link of policy that would relieve some of the stress on the land and water conditions of the country. The Soil Conservation Society of America does support the NACD-recommended budget figures. Now, we know that you have some very tough budget and financing decisions ahead. The society will help in any way that we can. Hopefully, the final actions will not destroy the cooperative Federal, State, and local governmental efforts that we have had for 50 years.

Thank you.

Senator BURDICK. I am curious, Mr. Berg. What are you going to celebrate?

Mr. BERG. Well, there was a time—and I am working with the planning committee on that—when we didn't quite know how to title the event, but it is going to be a happy event. It is going to be looking not necessarily back 50 years, but looking ahead for 50 years, and it is a sold-out, over 1,000 people banquet down here at a local hotel close to the Capitol. I think we will find people from all over the country endorsing what has been done and looking forward to a continuation.

Hopefully, the wisdom of Congress will help make those future years better than what is forecasted right now.

Senator BURDICK. What I was referring to were the recommendations here.

Mr. BERG. Pardon?

Senator BURDICK. The recommendations don't give much cause for celebration.

Mr. BERG. We noticed that. On that basis, the program is very carefully constructed.

Senator BURDICK. Will conservation efforts be a top priority of the farmers if Congress should go along with the cuts?

Mr. BERG. I think with the story that you and I know—and we have heard it from so many others—conservation is in for some very serious days ahead, because the financial stress on the farmers of this country dictates that they have to survive first. The investments in soil and water conservation, for the most part, benefit the public. They are offsite benefits, and that is why this special education that we have on nonpoint source pollution dramatizes the offsite damages that occur from soil loss.

Therefore, the public had best be protecting the resources the farmers and the ranchers of this country very much need.

We feel any pullback from the Federal Government not only damages the ability of the individual land user to do what he needs to do primarily for the public benefit, but it also damages the non-Federal cooperation from State and local governments that has been dealing so successfully in the last decade. That signal going to the non-Federal governments of the country throughout the whole conservation movement is very, very dissatisfactory.

Senator BURDICK. I notice in your testimony in fiscal 1987, $454 million of SCS funds will be used to terminate 10,000 persons.

Mr. BERG. Yes; of that $454 million that is recommended for 1986, only $200 million of it would be used for active work. The rest of it would be used to pay the buy-out costs of the Career Civil Service.

Senator BURDICK. Suppose the recommendations go through Congress? Just suppose that. What would happen to this program?

Mr. BERG. It would be very, very badly ripped in terms of what has been developing in the network of a cooperative effort that we have had these past 50 years. I think it would be an indication that the Federal presence in this activity is out. People apparently have forgotten the days of the Dust Bowl and the gullies and the problems that led to the Soil Conservation Service and the other conservation activities. The network of work and assistance and cost-sharing in the network with the States and the conservation districts needs to be maintained. It is successful.

There are problems yet to be solved. We cannot put this burden on the individual land user and expect that they will solve the problem for the public and for the future.

Now, I noticed in the testimony that the Secretary gave before this committee that their farm policy recommendations, when they are implemented, will automatically retire the marginal lands of the country. I just don't think that is so. I think when people are stressed, as they are individually, on their farms, they are going to try to produce more with their basic resources. Therefore, we feel it would be a mistake for the Federal Government to pull back. They are decreasing the effort here in terms of buying power over the last several years. This is really a very drastic decision that needs to be reversed by the Congress.

Senator BURDICK. Thank you.

Mr. BERG. Thank you very much.

Senator BURDICK. Thank you for your fine testimony.

[Mr. Berg's prepared statement follows:]

STATEMENT OF NORMAN A. BERG

I am Norman A. Berg,representing the SCSA,a private non-profit organization founded in 1945.Our 13,000 members are dedicated to advance the science and art of good land use.As a Charter member and Fellow of the Society I am pleased to present to you the views of our organization on the proposed fiscal 1986 budget for soil,water,watershed, and related conservation activities in the U.S.D.A.Prior to the Administration sending the proposals to Congress,SCSA had seen items in print concerning discussions surrounding the development of the federal budget for soil and water conservation for 1986-and the years to follow.On January 8,1985 Walt Peechatka,Executive Vice President - SCSA-sent a letter to the President,the Director of OMB,the Secretary of USDA, the Chief of SCS,and key members of the House and Senate Agricuture and Appropriations Committees.SCSA was,at that time,concerned about pending actions that would,if carried out,decimate the federal soil and water conservation effort.

SCSA also corresponded with every Governor in the United States,because the non-federal governments have been adding to the work of U.S.D.A.with their appropriations,and other actions in recent years.They are doing this to accelerate the conservation work,because federal funds have not kept pace with the need.We know of your long term concern for this type of work and everyone has been grateful for action in the Congress to support this local,state and federal partnership.

Although stories earlier in the year reported the budgets for conservation programs in SCS and ASCS would be zero,the final decisions were perhaps partially influenced by many quick actions expressing concern similiar to that of SCSA.

However,when the FY 1986 Budgets were sent to Congress in early February,the future of SCS and ACP programs were drastically reduced or eliminated.Only one item-reduce to 5,000 staff years by 1987 - had resulted from the pleas of numerous individuals and organizations to save SCS.

The FY 1986 programs and budgets for soil and water conservation;as proposals driven only by fiscal policy considerations;reduced funds and staffs for SCS by around 67 percent of current levels.Assistance to watershed and resource conservation and development projects would be discontinued.The Great Plains Conservation Program and all cost-share programs of ASCS would be wiped out.Several key support functions,including snow surveys,inventorying and monitoring ,river basin surveys and watershed planning are proposed for complete elimination by 1987.$454 million of SCS funds would be used to terminate nearly 10,000 persons.

The reasons given in the budget documents and in the hearing testimony by the Secretary and others to this Committee,will not be repeated here,because that is already part of the public record.However,one statement is noted because of the actions that are pending and the outcome still in doubt. The point made to justify budget reductions"reflects the outlook that the economic incentives to devote marginal erosion-prone land to row crops will be lessened once the Administration's new farm legislation is enacted". Those who believe that as a good reason to destroy the fifty year U.S.D.A.efforts in soil and water conservation,have not studied the NRI data depicting the soil erosion problem.

The 1982 National Resources Inventory(NRI),conducted during my term as Chief of the Soil Conservation Service,showed that about 420 million acres in the U.S. are used for crop and hay production .The annual sheet,rill and wind erosion each year exceeds 3 billion tons of soil.Table 1 and Table 2 (attached) are indicators of some of the problem soils that need SCS,ACP and other assistance at an accelerated program level.

SCSA supports the concept of an across-the board budget freeze that would hold programs at the 1985 levels.We note that the Senate Budget Committee,however,has decided to suggest reductions in soil and water conservation programs. We hope that final action to address the deficit problem,by the Congress,will not tear gaping holes in the fabric of important natural resource programs that have been carefully developed over the past fifty years.The net federal spending (after crediting receipts for such items as timber sales, grazing fees,and user fees)for management of the public lands and the conservation programs on private lands will total about one-half of one-tenth of one cent out of each federal dollar.These are the natural resources needed for production of food and fiber and for our future security. SCSA appreciates the opportunity to bring these few views to the Subcommittee today.Thank you, Mr. Chairman.

TABLE 1. CROPLAND ACRES & ANNUAL EROSION

Crop Production Region	Million Acres		Sheet & Rill Erosion (Million)		Wind Erosion (Million T/Yr)
	Total	10T/A/Yr	Total	10T/A/Yr	Total
Northern Plains	93	4.9	282	104	236
Corn Belt	92	17.3	689	434	82
Southern Plains	45	1.1	112	17	477
Lake States	44	2.6	130	51	122
Mountain	43	2.6	89	25	292
Southeast	25	3.4	140	71	3
Pacific	23	2.0	67	38	35
Delta States	22	2.0	124	45	
Northeast	17	1.6	67	32	1
Appalachian	16	3.3	136	101	1
Other (Hawaii, CARIB)	1	0.4	7	5	
TOTAL	421	41.2	1,843	923	1,249

Source: 1982 NRI

MARCH 1985

TABLE 2.

HIGHLY ERODIBLE CROPLAND IN THE UNITED STATES, 1982
(IN 1000 ACRES)

STATE	4E,6E, 7,8	4E,6, 7,8	3E,4E, 6E,7,8	3E,4E, 6,7,8
ALABAMA	375.3	410.4	1162.5	1197.6
ARIZONA	1.0	6.6	3.7	9.3
ARKANSAS	91.2	102.1	461.0	471.9
CALIFORNIA	1049.4	1108.5	1571.1	1630.2
COLORADO	4360.3	4548.8	5934.2	6122.7
CONNECTICUT	15.1	34.5	38.0	57.4
DELAWARE	4.7	4.7	10.0	10.0
FLORIDA	185.4	297.2	279.4	391.2
GEORGIA	388.2	416.1	865.5	893.4
HAWAII	82.2	90.4	150.0	158.2
IDAHO	1271.6	1370.1	3017.3	3115.8
ILLINOIS	1322.0	1356.0	3586.7	3620.7
INDIANA	674.6	705.0	1479.1	1509.5
IOWA	1963.2	2010.6	8156.2	8203.6
KANSAS	2803.1	2926.3	9540.1	9663.3
KENTUCKY	862.2	892.6	1994.0	2024.4
LOUISIANA	25.7	25.7	197.3	197.3
MAINE	57.2	72.4	190.3	205.5
MARYLAND	201.2	211.9	438.9	449.6
MASSACHUSETTS	7.8	36.5	49.4	78.1
MICHIGAN	285.9	404.4	1280.3	1398.8
MINNESOTA	421.2	566.3	2124.2	2269.3
MISSISSIPPI	538.4	543.6	1158.4	1163.6
MISSOURI	1124.0	1173.1	5153.6	5202.7
MONTANA	3783.8	4402.2	15149.0	15767.4
NEBRASKA	3839.3	4075.3	8518.4	8754.4
NEVADA	91.7	194.3	104.7	205.8
NEW HAMPSHIRE	24.4	32.8	50.6	59.0
NEW JERSEY	61.9	79.9	151.0	169.0
NEW MEXICO	706.7	737.3	1440.3	1470.9
NEW YORK	390.9	437.3	1374.3	1420.7
NORTH CAROLINA	508.0	559.9	1337.0	1388.9
NORTH DAKOTA	2388.0	2883.4	6853.4	7348.8
OHIO	589.4	603.7	1875.4	1889.7
OKLAHOMA	1837.2	1918.9	4709.3	4731.0
OREGON	521.1	611.9	1825.3	1916.1
PENNSYLVANIA	888.7	961.8	2430.2	2503.3
RHODE ISLAND	0.0	1.0	0.0	1.0
SOUTH CAROLINA	90.6	117.6	291.4	318.4
SOUTH DAKOTA	1613.1	1901.0	4234.9	4522.8
TENNESSEE	881.5	918.5	1858.4	1895.4
TEXAS	2806.4	3041.9	13573.9	13809.4
UTAH	397.1	432.3	716.4	751.6
VERMONT	78.9	93.2	215.3	229.6
VIRGINIA	438.1	478.2	1027.4	1067.5
WASHINGTON	2412.9	2464.3	5729.2	5780.6
WEST VIRGINIA	321.5	357.4	530.1	556.0
WISCONSIN	1343.4	1694.8	3223.1	3524.5
WYOMING	804.7	906.7	1629.1	1731.1
TOTAL	44991.7	49159.4	127689.3	131857.0

SOURCE: 1982 NATIONAL RESOURCES INVENTORY

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

STATEMENT OF ORESTES J. MIHALEY, ASSISTANT ATTORNEY GENERAL, INVESTOR PROTECTION, NEW YORK STATE AND MEMBER OF THE BOARD

Senator BURDICK. Mr. Orestes Mihaley. Is that Irish?

Mr. MIHALEY. Senator, it would take me a half hour to explain my ethnic background. The first name is Greek; the last name is a Hungarian derivation from Michael.

Thank you for having your committee ask us down here today. The North American Securities Administrators Association [NASAA] welcomes this opportunity to appear before the subcommittee to offer our comments on the proposed budget for the Commodity Futures Trading Commission. I am a member of the board of directors of NASAA and serve with Attorney General Abrams as the assistant attorney in charge of the Bureau of Investor Protection and Securities.

NASAA is an organization consisting of the securities administrators of the 50 States, the District of Columbia, Puerto Rico, the Provinces of Canada and Mexico. The purpose of our organization is to foster a uniformity among the States in the regulation of securities and commodities, to eliminate unnecessary redtape and duplicative regulation and procedures, and to strengthen the enforcement and regulatory capabilities of State and provincial securities regulators.

We have been for more than a decade particularly concerned with the abuses suffered by the American investing public as a result of unscrupulous individuals selling commodities, or commodity-related products. As you know, Senator, in 1974, Congress responded to the ever-increasing examples of commodity frauds by the establishment of the Commodity Futures Trading Commission [CFTC] to regulate the legitimate commodities industry and to prosecute those who engaged in fraudulent and illegal activity.

My statement fully sets forth the relationship, sometimes rocky, sometimes less rocky, that the States have had with the Federal watchdog over commodities over the years. Suffice it to say that we have gotten together in recent years and are even more determined than ever to fight the fraud that exists in the commodities field.

We have always believed that there is more than enough commodity fraud being perpetrated to keep all regulators, Federal and State, busy. It is for this reason that we objected when an attempt initially was made to foreclose the State regulatory presence to the detriment of State residents. The amount of fraud has not decreased. Indeed, a congressional committee has recently been told that commodity-related fraud perpetrated by boiler-type operators amounts to tens of millions of dollars annually.

One has just to look at the daily papers, the nationwide papers, and others to see that commodity fraud still exists and commodity investments are still being solicited by boiler room-type operators.

NASAA's concern now is that the Federal policeman, the CFTC, is not going to have enough cops on the beat. It is our understanding that for fiscal year 1986, the CFTC will be cut back some 50 to 80 staff-years from its present level of approximately 525, to 453.

There are, presently, according to our understanding, 130 staff members of every description in the enforcement section of the CFTC, including investigators, attorneys, clerks, and stenographers. To assert or to maintain that this number of personnel is adequate to regulate the legitimate commodities in the industry as well as to monitor fraudulence nationwide is ludicrous. The con men know this weakness and exploit it.

CFTC is operating with insufficient resources in its enforcement section, and these con men are willing to take a calculated risk that their schemes will never become detected or prosecuted, to the detriment of the investing public of America.

Fraudulent operators now advertise in respectable nationwide media, both printed and electronic. Because of the size and number of these advertisements, many times, and their repetitious nature, one cannot blame the public for feeling, "Well, this must be all right. There must be somebody in the Government looking at these problems and looking at these people and approving them."

It would be disastrous under these circumstances to fail to increase the enforcement resources of the CFTC. To shrink their operations, to the extent that we have been told, would be unthinkable. Therefore, we urge your committee to use its best efforts to eliminate any diminution in the funds that would be available for the CFTC and to adjust the budget to allow for increasing the number of personnel assigned to investigate and prosecute commodity fraud.

We thank you for this opportunity to express our views and offer you whatever assistance you may require in this regard.

Senator BURDICK. Thank you very much.

Mr. MIHALEY. Thank you, sir.

[Mr. Mihaley's prepared statement follows:]

STATEMENT OF ORESTES J. MIHALY

The North American Securities Administrators Association, Inc. (NASAA) welcomes this opportunity to appear before this Subcommittee to offer our comments pertaining to the proposed budget for the Commodity Futures Trading Commission (CFTC).

My name is Orestes J. Mihaly. I am a member of the Board of Directors of NASAA and serve in the office of Attorney General Robert Abrams of the State of New York as the Assistant in Charge of the Bureau of Investor Protection and Securities.

NASAA is an organization consisting of the securities administrators of the fifty states, the District of Columbia, Puerto Rico, the provinces of Canada and Mexico. The purpose of our organization is to foster uniformity in state regulation of securities and commodities, to eliminate unnecessary red tape and duplicative regulation and procedures, and to strengthen the enforcement and regulatory capability of state and provincial securities regulators.

NASAA for more than a decade has been particularly concerned with the abuses suffered by the American investing public as a result of unscrupulous individuals selling commodities or commodity related products.

In 1974 Congress responded to the ever increasing examples of commodities frauds by the establishment of the Commodity Futures Trading Commission (CFTC) to regulate the legitimate commodities industry and to prosecute those who engaged in fraudulent and illegal activity.

At that time NASAA and the individual states were very concerned that the preemptive language of the enabling federal legislation would actually offer less protection to commodities investors by eliminating the states as regulators and prosecutors of fraudulent operators. In the early years of the CFTC's existence, the relationship between the states and the CFTC was turbulent and even acrimonious. As Congress periodically revisited the question of preemption during reauthorization hearings on the CFTC over the years, NASAA advocated an increased role for state regulators, especially in the enforcement area. Congress responded to NASAA's urging by authorizing the states (1) to join with the CFTC in civil actions in the federal courts against fraudulent operators for violations of the Commodity Exchange Act or CFTC rules; (2) to initiate, on their own, civil actions in state courts (subject to removal to the federal courts) for violations of the anti-fraud provisions of the Commodity Exchange Act or the Commission's anti-fraud rules; (3) and to initiate, on their own, actions in state courts for violations of state statutes or rules against persons who are required to register with the CFTC and who have not registered or when off-exchange transactions are involved. Thus, state securities administrators currently have a whole panoply of remedies available under the "open season" provisions of § 12(e) of the Commodity Exchange Act.

During the last few years, Congress and the CFTC have recognized that the CFTC alone can not handle the enormous amount of fraud being perpetrated on the American public in the sale of commodity related investments. As this recognition has evolved, the turbulence of the relationship between the states and the CFTC has subsided. There is an increasing spirit of cooperation between them and with a new self-regulatory agency now on the scene - the National Futures Association (NFA). Greater cooperation especially in the enforcement area, is the rule rather than the exception. Information is more fully exchanged through such vehicles as liason personnel and advisory committees and joint and cooperative investigations and prosecutions have increased.

A very recent significant result of this cooperative spirit has been the drafting of the Model State Commodity Code, a joint effort of NASAA, the CFTC and the NFA. The Model Code was adopted on April 5, 1985 by the NASAA membership at its Spring conference in Washington. It will serve as a model for many states who presently do not have any law relating to the regulation of the offer and sale of commodities and commodity related products. The model Code has already been introduced in several state legislatures and we expect favorable action soon.

NASAA has always believed that there is more than enough commodity fraud being perpetrated to keep all regulators and prosecutors busy. It is for this reason that we objected when an attempt was made to foreclose a state regulatory presence to the detriment, we felt, of our residents. The amount of fraud has not decreased. Indeed, Congressional committees have been told that commodity related frauds perpetrated by unscrupulous "boiler room" operators amount to hundreds of millions of dollars annually.

NASAA's concern now is that the federal "policeman" is not going to have enough "cops on the beat". It is our understanding that for fiscal 1986 the CFTC will be cut back some 50-80 staff years, from its present level of approximately 525 staff years to approximately 453 staff years. There are presently 130 staff members of every description in the enforcement section of the CFTC, including investigators, attorneys, clerks and stenographers. To assert that this number of personnel is adequate to regulate the legitimate commodities industry, as well as to investigate and prosecute fraudulent activity nationwide, is ludicrous. The con men know this weakness and exploit it. They know that the CFTC is operating with insufficient resources in enforcement and they are willing to take a calculated risk that their schemes will never be detected or prosecuted.

Fraudulent operators now advertise in respectable nationwide media, both print and electronic. Because of the size and number of these advertisements and their repetitious nature, one cannot blame the public for feeling "Well, this must be allright. It must be legitimate because the government - someone in government - must know about it and approve."

It would be disastrous under these circumstances to fail to increase the enforcement resources of the CFTC. To shrink their operations to the extent that we have been told is contemplated would be unthinkable.

NASAA urges your Subcommittee to use its best efforts to eliminate any diminution in the funds allocated for the enforcement staff of the CFTC and, indeed, to adjust the budget to allow for an increase in the number of personnel assigned to investigate and prosecute commodity frauds which are so detrimental to the investors of this country and to the legitimate commodities industry.

We also urge that adequate funding be given the CFTC to embark on a nationwide educational program to inform the public of the dangers of commodity related frauds. White collar crime of this type can be deterred, not only by vigorous prosecution, but also by alerting the public of the pitfalls involved. There is no reason why a comprehensive effort cannot be made to initiate such awareness in our school systems. The CFTC, as the federal regulator, should also be funded to aid in this approach to the problem.

We thank you for this opportunity to express our views and offer you whatever further assistance you may require.

NATIONAL RURAL WATER ASSOCIATION

STATEMENT OF CLARK CRONQUIST, BOARD MEMBER, NATIONAL RURAL WATER ASSOCIATION, AND PRESIDENT, NORTH DAKOTA RURAL WATER ASSOCIATION, GILBY, ND

Senator BURDICK. Clark Cronquist, board member, National Rural Water Association, and president of the North Dakota Rural Water Association in Gilby, ND. Welcome to our committee, Mr. Cronquist.

Mr. CRONQUIST. Thank you, Senator.

Senator BURDICK. Mr. Cronquist.

Mr. CRONQUIST. I thank the committee for allowing the National Rural Water Association to be present at the hearing. We have some prepared testimony, and I will read just a little bit of that. If there would be any questions, I would be glad to answer them.

Senator BURDICK. Your entire statement will be made a part of the record. You can highlight any portion you wish.

[Mr. Cronquist's prepared statement appears at the conclusion of his oral testimony.]

Mr. CRONQUIST. Thank you, sir.

Mr. Chairman, the purpose of our testimony today is to express our appreciation to you and to members of the committee for your continuing support of two important programs that are for the development of rural America. The first is the Rural Water and Sewer Grant Program, which is the backbone of rural development in this country. Without this assistance, rural businesses and families would not remain in the rural areas. Rural communities would not have the public facilities infrastructure necessary to fully participate in the American economic mainstream.

The second program is the Rural Water Circuit Rider technical assistance program. The program now provides rural water circuit riders to 33 States. Over the last program period, these circuit riders assisted rural water systems with over 14,000 onsite technical assistance visits. In addition, these circuit riders have participated in over 380 one-day training sessions operated in small rural communities within these States.

First, we urge you to continue the funding for the FmHA rural water grants and loans to a freeze of the same amount as provided last year. While this is a significant reduction from the budget of 3 years ago, it will allow most rural water systems to meet their minimal needs. With the expanded effort to obtain State and local assistance, these funds will be even more critical to rural water development in the future. What is saved is no less than the prevention of the predicted water crisis in rural areas through the steady and cost-effective protection of rural water resources. No program provides more protection to the economic and community stability of rural America than this program. We urge you to fund it at last year's level.

Also, we are requesting that the committee include a circuit rider program in the fiscal year 1986 appropriations for the Farmers Home Administration. We are also asking for consideration of increasing the funds available for each State program by $5,000 to enable circuit riders to obtain the services of a part-time secretary to answer requests for help from small systems and to provide minimal administrative support. In addition, we would like to respond to requests from five more States to initiate a circuit rider program. In order to expand to these five States and strengthen the program, we are requesting a funding level of $2.1 million for fiscal year 1986.

Thank you and the Senators on this very important committee. Without your foresight and help, rural America would be a much less desirable place to live and work.

Senator BURDICK. The message you bring to the committee today is that you would like to have last year's level retained as far as dollars are concerned?

Mr. CRONQUIST. In the sewer and water programs.

Senator BURDICK. Yes; for the benefit of the committee members who may not be here, would you explain the Circuit Rider Program? I know many people are mindful of the judges in our country who used to ride the circuit and go from city to city and case to case. How do these riders work? Do they make a regular circuit or do they go to spots where there is possible trouble? How do they pick that up?

Mr. CRONQUIST. Initially, they have to make themselves known. Most States and small communites were not familiar with the program, so they went out and visited small communities to tell them about the services that we have. Each State has a rural water systems association. North Dakota has one. There are 30 others. Through their offices, some monthly publications, some bimonthly, some quarterly, et cetera, depending on the State, we have put notifications in those publications that allow them to call the State association office if they need help. Those are two ways it works.

Mostly, after they become aware that there is a program like this, the State association officer receives calls for help from the circuit rider. In most States where the program has become known, there is not enough time or money for the circuit rider to respond to the requests that he receives from small communities and rural water systems for assistance. What he does is, he goes and helps them with their maintenance problems. This consists mostly of assistance in determining what the problem is, we will say, with water losses; what the problem is with their pumps that aren't functioning properly; with their chlorinators; and keep their systems in compliance with State laws and national laws.

Senator BURDICK. How long has the system been in vogue?

Mr. CRONQUIST. I believe it has been 3 or 4 years now since Congress' inception of the system.

Senator BURDICK. From all the reports you get, is it working satisfactorily?

Mr. CRONQUIST. Senator, I think it is probably working better than we had even anticipated because of the numerous calls that these people can't even keep up. We are running out of money for travel. We are running out of money for administrative help. States, and North Dakota in particular, but a lot of other States, have upped the dues to their members so that they can add to the funding level to keep this program going. In North Dakota, we have taken no Federal money for the operation of the State office or the equipment that we have for our newsletter that we send out, or for the telephone and postage. All of that is paid for out of the State fund, the rural water association fund, an internal account.

Senator BURDICK. The Federal Government picks up the salaries, then?

Mr. CRONQUIST. Of the circuit rider and the program anchor, that is right.

Senator BURDICK. It sounds like a good program to me.

Mr. CRONQUIST. I am sure, Senator, with your rural background and coming from North Dakota, you are quite aware of what type of a program it is.

Senator BURDICK. Thank you very much.

Mr. CRONQUIST. OK. Thank you.

[Mr. Cronquist's prepared statement follows:]

STATEMENT OF CLARK CRONQUIST

Mr. Chairman, the purpose of our testimony today is to express our appreciation to you and the members of the Committee for your continuing support of two important programs that are critical to the development of rural America. The first is the rural water and sewer grant and loan program, which is the backbone for rural development in this country. Without this assistance rural businesses and rural families could not remain in the rural areas. Rural communities would not have the public facilities infrastructure necessary to fully participate in the American economic mainstream.

The second program is the Rural Water Circuit Rider technical assistance program. The program now provides roving rural water circuit riders in thirty-three states. Over the last program period these Circuit Riders assisted rural water systems with over 14,000 on-site technical assistance visits. In addition, these Circuit Riders have participated in over 380 one-day training sessions operated in small rural communities within these states.

We feel very strongly about both of these programs. We believe that what is at stake is the continuation of the primary program for providing safe drinking water to rural families, businesses and farms. National magazines herald the "water crisis" as the next national crisis that America will face. These articles conclude that without adequate water the viability of America's communities and industries will be in jeopardy and the quality of life will change dramatically.

We have news for these predicators of crisis. Rural folks have always known that water is a scarce resource and is the backbone of our rural communities, and as a result have worked vigorously to provide and protect this precious asset throughout America's history. No one is more conscious of how important water is than the rural residents and no one works harder to protect and supply it than these same rural folks.

However, the economics of providing community utilities of any kind, including water, favors the concentration of people in urban areas. Roads, electricity and finally water were slower coming to rural America. However, we now have a strong electricity distribution system thanks to Rural Electric, the roads in rural areas are strong because of Federal, state and county funding and the availability of rural water has increased dramatically over the past twenty years because of the Farmers Home Administration rural water grant and loan program. While the electricity and road systems have developed an expanded statewide base for financing this has not been the case for rural water. Rural water districts do not have the legal standing to float bonds, levy taxes or provide for other types of financing. Thus, the FmHA loan program is absolutely critical to the continued availability of safe drinking water in rural areas.

With this in mind, and knowing the great support from you Mr., Chairman, and from Senator Andrews, Senator Burdick and other members of the Committee to provide for continuation of the FmHA rural water grant in the FY '86 budget resolution, we would like to offer some moderate proposals on the funding for the rural water program for next year.

First, we urge you to continue the funding for the FmHA rural water grants and loans through a freeze of the same amount as provided last year. While this is a significant reduction from the budget of three years ago it will allow most rural water systems to meet their minimal needs. With the expanded effort to obtain state and local assistance these funds will be even more critical to rural water development in the future. What is at stake is no less than the prevention of the predicted water crisis in rural areas through the steady and cost-effective protection of rural water resources. No program provides more protection to the economic and community stability of rural America than this program. We urge you to fund it at last year's level.

The second area is our Rural Water Circuit Rider Technical Assistance Program. This program has become the linch-pin for improving the effectiveness of the use of FmHA grants and loans and strengthening the capability of rural water systems to better manage and use their present water distribution systems and water supplies. There are so many ways that small water system operators and boards can reduce costs, improve operations, save scarce water and reduce the need for Federal assistance if given timely and accurate guidance. In thirty-three states the rural water Circuit Rider is in the field from dawn to dark providing this type of assistance. It has become a wonderful program, a dream come true to so many small systems and it receives the enthusiastic support and cooperation of the state Farmers Home Administration offices.

When this program was developed five years ago it was the sense of this Committee and the rural water folks throughout the country that on-site technical assistance to small water systems would greatly improve the health conditions of those systems and would improve their management and operations. In a time of reduced public expenditures this appeared to be a very cost effective way to better utilize the funds available for the improvement of rural water systems. Circuit Riders, working under the guidance of state rural water associations, would assure that there would be grassroots contact with small water systems that would make this technical assistance relevant and of immediate help.

We are pleased to report to you that the Circuit Rider program continues to accomplish these objectives. The Circuit Riders visit small systems who have requested assistance from state FmHA offices, state health departments or state rural water associations. During these visits the Circuit Rider works alongside the full or part-time operator, bookkeeper or manager to show them how to prevent problems such as unhealthy water supply and water loss, and to advise on leak repairs, rate setting, equipment repair and purchase, and better operation and maintenance procedures. In short, Circuit Riders help the operators and Boards of Directors of these small systems to become more self-sufficient in the operation of their own systems.

This is particularly important to small systems because of the part-time status of many operators and the continuing turn-over of personnel and Board Members. Very few of these individuals have the time or resources to attend more formal training sessions. As a result, many of these systems continue to utilize inefficient operating procedures which often endanger the public health and require large capital expenditures to replace old facilities. With on-site visits to over thirty-five small systems a month in each state the Circuit Riders have reduced small system non-compliance under the Federal Safe Drinking Water Act, have dramatically cut back on water loss thus saving scarce water as well as reducing the water costs to rural residents and have helped many systems establish cost-effective maintenance and expansion programs based on sound accounting principals and valid water rates. In state after state we are finding a significant improvement in small water system operations and a smooth working relationship between these systems and the Circuit Rider.

In another area the program has been an important factor in improving rural water system compliance with the Federal Safe Drinking Water Act. The experience of the Environmental Protection Agency continues to be that the primary problems with compliance with the Safe Drinking Water Act (SDWA) are with the small rural water systems. States with Circuit Riders have experienced reductions in non-compliance with the SDWA and now the state associations and state governments are beginning to address the problems faced by groundwater contamination.

The Circuit Riders are continually involved in cost reduction assistance. As I discussed earlier, the FmHA grant and loan programs have been reduced while the need for rural water system funding continues to increase. This reduction in funds has put a premium on developing cost-effective methods for repair, maintenance and limited expansion programs for small systems. With the number of FmHA field staff in each state limited, the Circuit Riders have moved rapidly to respond to the requests for assistance from these small systems. Report after report from Circuit Riders provide new examples of more innovative and cost-effective actions taken with these systems.

Along this same line we are finding that State Rural Water Associations have become the major instigators of increased state funding for rural water systems. The availability of state government grants and loans reduce the pressure on Federal grant assistance. These state associations with the grassroots information and experiences of the Circuit Riders have made their successful cases before Governors and state legislatures.

Attached is a summary of the Circuit Rider visits carried out in the thirty-three states during the most recent contract period. We know some of the members of the Committee have visited with the Circuit Riders in the field. We invite all of you to come spend some time with a Circuit Rider when he visits a small rural water system. We believe you will appreciate the value of the direct relationship between the Circuit Rider and the water system and the success this hands-on approach has in solving small system problems.

We are requesting that the Committee include the Circuit Rider program in the FY 86 appropriations for the Farmers Home Administration. We are also asking for consideration of increasing the funds available for each state program by $5,000 to enable Circuit Riders to obtain the services of a part-time secretary to answer requests for help from small systems and to provide minimal administrative support. In addition, we would like to respond to requests from five more states to initiate a Circuit Rider program. In order to expand to these five states and strengthen the program we are requesting a funding level of $2.1 million for FY 1986.

Thank you and the Senators on this very important Committee. Without your foresight and help rural America would be a much less desirable place to live and work.

CIRCUIT RIDER TECHNICAL ASSISTANCE VISITS:
October 1, 1983 to September 30, 1984

	TOTAL	OPERATION	MAINTENANCE	MGMT	FINANCE
ALABAMA	457	166	48	170	73
ARKANSAS	566	333	148	81	4
COLORADO	307	100	85	98	24
FLORIDA	451	303	37	93	18
GEORGIA	373	262	71	39	1
ILLINOIS	486	82	328	68	8
INDIANA	500	234	148	99	19
IOWA	315	234	20	54	7
KANSAS	426	209	0	217	0
KENTUCKY	499	324	161	15	0
LOUISIANA	491	200	126	105	60
MAINE	436	182	163	79	12
MINNESOTA	409	170	173	46	20
MISSISSIPPI	572	153	153	267	1
MISSOURI	435	154	193	66	22
MONTANA	437	157	103	175	2
NEBRASKA	486	167	72	154	93
NEW MEXICO	486	129	275	77	21
NEW YORK	421	195	226	0	0
NORTH CAROLINA	434	177	157	93	7
NORTH DAKOTA	513	258	155	76	24
OHIO	470	119	184	164	3
OKLAHOMA	433	96	20	311	6
OREGON	453	249	162	8	34
SOUTH CAROLINA	506	229	103	146	28
SOUTH DAKOTA	497	173	124	181	19
TENNESSEE	629	307	205	116	0
TEXAS (1)	405	182	73	143	7
TEXAS (2)	122	54	33	29	6
UTAH	432	144	158	121	9
VERMONT	177	123	41	4	9
WYOMING	321	155	76	79	11
	14,154	6,056	4,050	3,516	551

UNITED STATES TELEPHONE ASSOCIATION

STATEMENT OF JAMES W. DAMON, PRESIDENT, OREGON TELEPHONE CORP., MOUNT VERNON, OR, AND REPRESENTATIVE, UNITED STATES TELEPHONE ASSOCIATION, WASHINGTON, DC

Senator BURDICK. James Damon, president of the Oregon Telephone Corp., from Mount Vernon, OR.

Mr. DAMON. Thank you, Mr. Chairman.

Senator BURDICK. Don't tell me there is a Mount Vernon in Oregon, too?

Mr. DAMON. Yes; as I understand, there is a Mount Vernon in some 36 States.

Senator BURDICK. I know there is one in Ohio.

Mr. DAMON. Mr. Chairman and members of the committee, my name is James Damon. I am president and general manager of the Oregon Telephone Corp. in Mount Vernon, OR, appearing before you today as a representative of the United States Telephone Association. I currently serve as chairman of the REA Borrowers Committee of that association. In the interest of brevity, I would like to ask that the full text of my testimony, which I submitted to you earlier, be entered into the record. I will simply make a brief presentation to the committee.

Senator BURDICK. Without objection, your full statement will be made a part of the record.

[Mr. Damon's prepared statement appears at the conclusion of his oral testimony.]

Mr. DAMON. My company is one of the 1,432 independent or non-Bell telephone companies in our Nation. I am also well acquainted with the word rural, for we serve an area of about 165 miles from east to west in eastern Oregon, roughly the distance between Washington, DC, and New York, but yet we only have about 1,300 customers.

In brief, the United States Telephone Association supports the continuance of the strong REA program and universal service to all people living in the rural areas of our Nation. We also support: a freeze of the current 1985 lending levels of the REA program; no rescission of the $30 million capitalization for the Rural Telephone Bank in fiscal year 1985; a $30 million capitalization for the Rural Telephone Bank in fiscal year 1986; a continuation of the present range of interest rates; and congressional direction to REA to continue their engineering standards functions, as well as a relaxation of the regulatory policies with regard to general funds of their borrowers.

We have heard much discussion of how the REA program has outlived its usefulness and should now be terminated. This simply is not true. For instance, only 2 years ago, my company spent over $300,000 to bring telephone service to the people of Ironside, OR, an investment of approximately $7,000 per telephone to place 60 miles of buried cable in 35 widely scattered ranches in that area who never had telephone service before.

And such areas still exist today. There is also much discussion about the cost of the REA program to our Government. However, the only argument that is ever advanced concerns the interest rate being charged for loans as it relates to the cost of money today. What I would like to do is to take a moment to tell you the other side of the story.

My company received one of the first REA loans in the State of Oregon. That loan, made in 1953, was for $250,000. Yet, on our recently filed 1984 tax returns, my company paid $327,304 in Federal taxes, $68,833 in State taxes, and $30,420 in local, city, and county taxes, for a total in 1 year of $427,558—a very lucrative annual return by anybody's standards on an investment of $250,000.

To go unsaid, clearly these figures are without the effect of communications service to the rural area we serve, and through this, the improvement to the standard of living of those people and as a direct consequence, the improvement of their tax base for all levels of government. The point I want to make clear is that the REA program is a cost-effective program for our Government regardless of the rhetoric to the contrary.

I would like to conclude by leaving with you the thought that the continued funding of the REA program is a clear signal to those of us who live in the rural areas of our Nation that Congress is not abrogating its commitment made long ago when it originally established the REA program, and that the sparsely populated sections of our country will continue to have dependable and affordable telephone service so vital to their well-being.

Mr. Chairman, I want to thank you for the opportunity to appear before you and present you with my views and those of the United States Telephone Association in favor of the continuation of the funding of the REA program.

Senator BURDICK. According to my figures here, capitalization of the rural telephone bank is zeroed out in 1986, is that correct?

Mr. DAMON. Yes; we are asking that that be reinstated. We are asking that that be continued. It was $30 million for 1985, and we are asking that that be included in the 1986 fiscal year.

Senator BURDICK. I see the budget authority for 1985 was $250 million; fiscal 1986, $75 million?

Mr. DAMON. Yes, sir.

Senator BURDICK. And the telephone guaranteed loans are also zeroed out.

Mr. DAMON. We would like to have that in there for 1986, the guaranteed program.

Senator BURDICK. I am assuming you want that restored, too?

Mr. DAMON. Yes, sir.

Senator BURDICK. We know the value of the rural telephone system

Mr. DAMON. What we are asking, of course, is that the levels remain the same as they were in 1985.

Senator BURDICK. I understand it perfectly. Thank you very much.

Mr. DAMON. Thank you, Senator.

[Mr. Damon's prepared statement follows:]

STATEMENT OF JAMES W. DAMON

Opening Remarks

Mr. Chairman and Members of the Subcommittee, I am James W. Damon, President of the Oregon Telephone Corporation, Mount Vernon, Oregon, appearing before you as a representative of the United States Telephone Association (USTA). I currently serve as Chairman of the REA Borrowers Committee of USTA.

The Oregon Telephone Corporation is one of 1400 Independent (non-Bell) telephone companies in the United States. I am pleased to have this opportunity to appear before you and testify in support of the REA Telephone Program.

Recommendations

The United States Telephone Association (USTA) recommends the following for the REA Telephone Program:

- The continuation of a strong REA Program and Universal Service.

- Financing:
  a. a freeze of 1985 lending levels; 250 million for insured, 185 million for the Rural Telephone Bank and 125 million for Guaranteed
  b. $30 million capitalization in FY 1986 for the Rural Telephone Bank
  c. no rescission of $30 million capitalization in FY 1985 for the Rural Telephone Bank

- Continuation of the current range of interest rates.

- Freeze REA administrative budget at 1985 levels at approximately $30 million per year.

- Congressional direction for REA to:
  a. retain REA engineering standards
  b. reduce regulation of general funds

Need for Financing

Utilities as an industry are capital intensive, and rural telephony is no exception. All utilities need to invest relatively large sums of capital to extend their service, modernize plant and provide new services. Rural utilities generally have higher costs and need relatively greater sums of capital to maintain universal service. The following chart shows the growth of REA Telephone Borrowers during the last 10 years:

	1983	1973	Growth
Total Telephone Plant	9,858,957,000	2,330,617,000	323%
REA Long Term Debt	4,362,318,000	1,858,349,000	135%
Total Subscirbers	4,823,051	2,846,059	70%
One Party Subscribers	4,027,924	1,554,494	159%
Route Miles of Line	860,088	613,871	40%
Employees	30,345	17,813	70%

Even with this tremendous growth in rural telephony financed by REA during this period, rural switching offices have generally not been modernized. The following shows the status of REA borrower switching offices:

Total number REA borrower switching central offices	6264
Switching offices that are digital	919
Capital needed per year to replace these offices during the next ten years	$175,000,000

The vast majority of REA borrower switching offices are still the mechanical step by step technology. X-BAR and Analog technologies generally have not been used to upgrade these offices. To provide new services that urban customers will have and to continue present telephone services, new switching offices will be needed. Maintenance of the old step by step offices is getting more expensive and parts are getting scarce.

In the last 10 to 15, years REA borrowers have upgraded to mostly one party service. The bulk of the investment to accomplish this has been in buried cable, aerial cable and other equipment to provide industry quality voice grade service. The service life of this equipment varies, but experience demonstrates that a 15 year service life is not uncommon. The following shows the potential yearly capital need for replacing this plant:

REA Investment in Outside Plant	$3,894,069,000
Annual Capital Requirements to Replace over 15 years.	259,604,000

Given the past growth of REA borrowers, the need to update switching centers and the requirement to begin replacing outside plant, the 1985 authorized lending levels for REA are essential for rural areas and universal service. The job in rural areas is not done.

Problems with Market Financing

REA borrowers in general have four basic problems with obtaining financing from private markets:

- Small Size - Most borrowers have fewer than 2000 subscribers.
- High Debt Ratio - The average debt for REA borrowers is approximately 75% of total financing. Private financial institutions many times require more equity before making a loan on any terms.
- Comparatively Lower Earnings - As an example, the market usually require a two times interest coverage test for public utilities; many small telephone borrowers can not even meet the lower Rural Telephone Bank requirement of 1.5 times.
- REA First Mortgage - Any other outside financing would have to take a second position unless REA would accommodate their first lien. REA generally contends that they make lien accommodations; however, for telephone borrowers there is little published policy. REA's case by case approach is very burdensome to many or most private lenders.

It is questionable whether the commercial market would provide capital for the average REA borrower. The problems of attracting commercial capital would be especially severe for the hundreds of small, rural, independent telephone companies -- currently borrowing from the REA. Commercial capital markets probably would reject the demands of many companies which today provide telephone services to millions of rural people.

Need for Low Interest Rates

The REA Program has a range of interest rates to fit the varing needs of Rural America. The present REA telephone loan programs reflect careful targeting of federal expenditures. In 1981, Congress limited the availability of 2-percent loans to cases of "extreme financial hardship" or when a 5-percent loan would cause rates to be substantially higher than the rates charged for similar service in the same or nearby areas by other telephone companies. In recent years, all the new insured loans have been at the 5% rate.

The Rural Telephone Bank (RTB) was established in 1971 and the current interest rate is 9.5%. The whole thrust in establishing the Rural Telephone Bank was to wean borrowers away from the traditional REA financing as they gained financial maturity and were able to pay a higher rate of interest. This concept was not hastily conceived. It represented long study and thought on the part of the Department of Agriculture, the Rural Electrification Administration and by the REA borrowers and their associations.

Guaranted loans can also be obtained from REA at interest rates highter than the RTB.

Despite the accomplishments of REA, the need for low-interest and guaranteed telephone loans through the various telephone loan programs continues. Oregon Telephone Corporation is an example. If the interest on current REA loans were at the market rate, my subscribers would have to pay $10 per month more for local service.

The budget agreement between the Senate Republican Leadership and President raises the interest rates on all REA loans to market rates plus 1-1/8%. This would have a devastating effect upon small rural telephone companies.

The REA Telephone Loan Program does not significantly contribute to the deficit problem

The following comparison of money paid to the Federal Government by REA telephone borrowers to the costs to the government of maintaining the REA illustrates the fact that REA Telephone borrowers do not contribute to the Federal deficit in any signifcant way:

Funds flowing from Telephone Borrowers to the Federal Government in 1983 (Thousands)	
Principal Payments	$106,994
Interest Payments	205,245
Federal Income Taxes	171,620
Other Federal Taxes	36,561
	$520,420

Authorized Telephone Loan Program in 1983 and half of REA's administrative costs (Thousands)	
Insured	$250,000
Rural Telephone Bank	185,000
Guarantees	125.000
1/2 REA Administrative Expenses	15,000
	$575,000

Oregon Telephone Corporation received one of the first REA loans in the state of Oregon. That loan, made in 1953, was for $250,000. In 1984 Oregon Telephone Corporation paid $194,000 in Federal Income Taxes. Another $133,000 was paid in social security, payroll and excise taxes. The investment in Oregon Telephone by REA has been a lucrative one for the Federal Government by any measure.

Telephone service in rural areas is an essential part of the rural infrastructure that keeps American agriculture productive. The return to the economy in terms of increased agriculture production and reduced balance of trade problems has to be worth more than the cost of REA telephone program. Furthermore, the stimulus of the loans to economic activity results in additional tax revenues to the federal government possibly making the REA Telephone Loan Programs net contributors to the federal treasury.

Over $1 billion in principal payments already has been repaid to REA. There has never been a default in the 34 year history of the REA telephone program. Truly, this is a record of which, as taxpayers, we can all be proud.

REA Rules and Proposed Eliminiation of Standards will Have Adverse Effects on REA Borrowers

The present REA general funds policy determines advances for approved loans that can be drawn down by REA Telephone borrowers. If general funds exceed 8% of total telephone plant or $100,000 whichever is greater, then REA funds cannot be advanced. The REA borrower must use his own general funds to construct telephone plant. There are certain exclusions from this 8% rule but the exclusions are limited to investments to REA act purposes which are generally rural exchange telephone services.

Investments in related telecommunications projects such as CATV, Satellite antennas and possibly cellular radio are considered general funds in many instances and not excludable from the calculation. The effect of the REA policy is to limit borrower diversification and to limit provision of new services in rural areas.

Recently, it seems that REA wants to use its general fund policy to limit the use of loan funds even for rural telephone purposes. For electric loans REA is working on a new policy that essentially would change the 8% rule to a 5% rule. If this change became a rule for telephone borrowers, the vast majority of telephone borrowers would be excluded from drawing down funds in the future.

This General Funds Policy prevents REA from making loans up to authorized floors and from carrying out the goals of the REA Act. Direction should be given to REA to eliminate this policy or modify it so that REA Telephone borrowers can provide a broad range of services.

REA should encourage borrowers to diversify their operations in the new competitive environment to preserve loan security through the obtaining of the revenues needed to replace expected reductions in toll revenues and equipment rentals. REA should also recognize the need for borrowers to obtain loans from other non-REA sources to help finance these new ventures and allow the borrower to provide these lenders with primary liens.

REA standards are viewed by the industry as a benefit, not a burden. Futhermore, USTA's analysis concluded that by eliminating the REA standards function, small companies and cooperatives would be particularly disadvantaged. While larger companies have more in-house engineering expertise, smaller systems need REA assistance more now than before because of rapidly changing technology and increasing compeition.

REA estimates that it takes eight professional man-years to maintain telephone standards. We consider this extremely cost effective. In addition, REA Standards have substantially strengthened REA loan security.

REA standards are a part of a rural engineering philosophy developed by REA over the years. The Industry believes that the logical place for rural standards is at REA.

NATIONAL RURAL TELECOM ASSOCIATION

STATEMENT OF JOHN F. O'NEAL, GENERAL COUNSEL

Senator BURDICK. John F. O'Neal, National Rural Telecom Association. Welcome to the committee.

Mr. O'NEAL. Thank you, sir. My name is John F. O'Neal. I am general counsel for the National Rural Telecom Association, which was formerly the National REA Telephone Association. Our association is comprised of privately owned telephone companies who borrow their capital from the Rural Electrification Administration to extend and modernize telephone service in rural areas.

Approximately 1,010, or 71 percent of the Nation's non-Bell telephone companies, borrow from REA. In accepting these loans, borrowers assume an obligation under the act to assume the widest practical number of rural users within the service territories.

Mr. Chairman, it is imperative that this vital program not be jeopardized by philosophical opposition or by unrealistic assessment of program needs. This committee, and the Congress as a whole, has strongly supported the REA telephone program since its inception in 1949, as you just pointed out. We appreciate your past efforts and look forward to an even stronger REA program for the future.

Let me begin with recommendations of our association for loan levels for fiscal 1986. These are the same levels that your committee and the Congress approved for fiscal 1985. REA insured loans, $250 to $325 million; REA loan guarantees, $185 to $220 million; and Rural Telephone Bank loans, $125 to $145 million.

This would, in effect, freeze the telephone loan programs at last year's levels. We also have indicated our willingness to go beyond the freeze concept and accept reductions in program levels if the committee believes that is necessary to achieve budget objectives. However, we believe that any required reductions should be generally proportionate to reductions in other Federal spending programs and not designed merely to accomplish ideological or philosophical purposes, as has been suggested by the administration.

If adopted, the budget compromise reached between the White House and Senate Republican leaders last week would sound a death knell for the REA program. Since we have not been able to clarify exactly what loan levels are assumed for fiscal 1986 in that package, let me address the two most devastating points of compromise which are known.

First, the plan to phase out all REA lending programs by 1994. These programs are still needed by rural America and are vital to the rural economy. I have a list of telephone loan applications by States currently on hand at REA. As of March 13, 1985, there were over $578 million in loan applications at the agency. Approximately 19 percent of these were from companies which have never before borrowed from REA. These figures amply demonstrate the ongoing need for this important program. I would ask that my chart of State-by-State loan applications pending at the agency be included in the record.

Senator BURDICK. It will be.

Mr. O'NEAL. Thank you, Mr. Chairman.

[CLERK'S NOTE.—The chart is included in Mr. O'Neal's prepared statement, which appears following his oral testimony.]

Mr. O'NEAL. There are those who argue that the need for the program is over because these companies have the ability to borrow from private sources. But let us examine that.

The private lenders normally require 40 to 60 percent equity before they will extend credit. Based upon REA's own statistics, the average telephone borrower at the end of 1983 had a net equity of only 27 percent. Private lenders also require a one-and-a-half times interest coverage ratio test and prefer a ratio of two or higher. Most borrowers cannot meet the minimum test, much less the preferred one. Also, it is important to note that most REA borrowers in terms of the number of subscribers are very small businesses, and the type of territory they serve is extremely sparse; just over 5,000 subscribers with 5.6 subscribers per mile of land.

The second part of the budget compromise would raise interest rates on REA loans to the Treasury's cost of borrowing plus 1½ percent, almost a tripling of interest rates this year. The only way left for rural America to maintain adequate service to their subscribers in the face of rapid technological changes in an aging rural telephone plant is to have access to reasonably priced credit. The budget compromise ignores the impact of these proposals on the rural society, and no studies have been conducted to support them.

Since most telephone companies are publicly regulated utilities, the benefits of low cost REA loans are passed through directly to the subscriber. Under the compromise, rural telephone rates will skyrocket and capital improvements to the system simply won't be made. Rural America will once again become a second-class segment of our society.

In 1981, Congress authorized the additional Government purchase of $300 million of class A stock from the Rural Telephone Bank in the amount of $30 million per year for 10 years. The budget compromise proposes to eliminate this funding for fiscal 1986. That is a matter about which you were just inquiring. This administration has made the same request every year and has sought rescissions for each prior year's capitalization provided by the Congress.

Congress originally established the Rural Telephone Bank in 1971. Its purpose is to provide a supplemental source of financing for REA telephone borrowers who can afford to pay a high rate of interest, thus relieving the pressure on the lower interest insured loan program. The bank is required under its enabling legislation to lend at its cost of money. It has proved to be a highly successful institution.

Each annual increment of capital is vital to the full capitalization of the bank, thus enabling more and more insured program borrowers to graduate to bank financing, fulfilling Congress' objectives. This committee and the Congress as a whole has recognized the essential nature of this ongoing additional capitalization process, properly providing full funding for each four of the fiscal years 1982 through 1985.

The purpose of the Government purchase of class A stock in the bank is to attain a lending rate somewhere between the insured lending rate and the full cost-of-money rate. The infusion of the $30 million per year into the bank permits the bank effectively to achieve this rate, enabling more borrowers to be weaned away from the 5-percent statutory interest rate.

The bank rate has been at 9½ percent since April 1984. In our judgment, the Rural Telephone Bank is the cornerstone of financing for REA telephone borrowers for the future and, hopefully, will be the institution which will ultimately provide all of the debt capital needs. The bank's strength is a vital factor in this process. Therefore, we respectfully request that the committee continue the appropriation of $30 million next year for Government purchase of class A stock in the Rural Telephone Bank.

Mr. Chairman, the REA program is facing its greatest challenge. In addition to the proposal to completely phase out the program, efforts are currently underway to undermine its effectiveness administratively. The proposed elimination of engineering standards, transfer of budget and personnel support functions to other agencies within USDA, and the adoption of the regulation concerning general funds are examples.

All are designed to restrict the availability of funds and the effective operation of the program as intended by the Congress.

While time will not permit me to go into detail today, I would urge the committee to carefully evaluate each of these proposed changes before they are finally adopted. Some, we believe, go beyond the authority of the Administrator under the act, and all undermine the effective operation of the program as intended by the Congress. For example, over 70 percent—over 70 percent—of the telephone borrowers will be written out of the program administratively if the proposed general funds regulation is adopted.

Thank you, again, for the opportunity to present our views today concerning this important program which is as worthy and necessary today as it was when originally enacted. The costs of providing telephone service in the rural areas are much greater today than they were in 1949. The service territories are equally sparse. As the chairman of this subcommittee pointed out when the Administrator appeared before him last month, user costs in rural America will skyrocket if this program is eliminated.

REA is celebrating its 50th year. It has an enviable record of accomplishment. Let't hope it has 50 more.

Thank you very much, Mr. Chairman.

Senator BURDICK. Thank you for a very fine statement.

Mr. O'NEAL. Thank you.

[Mr. O'Neal's prepared statement follows:]

STATEMENT OF JOHN F. O'NEAL

My name is John F. O'Neal. I am General Counsel to the National Rural Telecom Association which was formerly the National REA Telephone Association. Our association is comprised of privately-owned telephone companies who borrow their capital needs from the Rural Electrification Administration to extend and modernize telephone service in rural areas. Approximately [illegible] of the nation's non-Bell telephone companies borrow from REA. In accepting these loan funds, borrowers assume an obligation under the Act to serve the widest practical number of rural users within the service area.

Mr. Chairman, it is imperative that this vital program not be jeopardized by philosophical opposition or by unrealistic assessments of program needs. This Committee and the Congress as a whole has soundly supported the REA telephone program since its inception in 1949. We appreciate your past efforts and look forward to [illegible] the program for the future.

Ongoing Need for the REA Telephone Loan Programs

Let me start with the recommendations of the National Rural Telecom Association for loan levels for FY 1986. These are the same levels [illegible] approved for FY 1985:

REA Insured Loans	[illegible] million
REA Loan Guarantees	[illegible] million
Rural Telephone Bank Loans	[illegible] million

This would, in effect, retain the telephone loan programs at least near [illegible] levels. We have also indicated our willingness to go beyond the freeze concept and accept reductions in program levels if the Committee believes that is necessary to achieve budget objectives. However, we believe that any required reductions should be generally proportionate to reductions in other federal spending programs and not designed merely to accomplish ideological or philosophical purposes as has been suggested by the Administration.

If adopted, the budget compromise reached between the White House and Senate Republican leaders would sound a death knell for the REA program. Since we have not been able to clarify exactly what loan levels are assumed for FY 1986 in that package, let me address the two most devastating components of the compromise which are known. First, the plan to phase out all REA lending programs by 1994. These programs are still needed by rural America and are vital to the rural economy. Below is a list of telephone loan applications by state currently on hand at REA. As of March 31, 1985, there was over $578 million in pending loan applications. Approximately 19 of these are from companies which have never borrowed from REA before. These figures amply demonstrate the ongoing need for this important program.

TELEPHONE LOAN APPLICATIONS ON HAND AS OF 3-31-95

State	No. of Applications	$ Amount of Applications	Number Completed	$ Amount of Completed Applications	No. of Uncompleted Applications	$ Amount of Uncompleted Application
AL	8	[illegible]	[illegible]	[illegible]	2	8,700,000
AK	5	[illegible]	3	[illegible]	2	3,820,000
AZ	2	[illegible]	1	[illegible]	1	1,311,000
AR	1	[illegible]	[illegible]	[illegible]	–	---
CA	3	[illegible]	[illegible]	[illegible]	1	393,000
CO						
CT						
DE						
FL						
GA	6	[illegible]	[illegible]	[illegible]	[illegible]	3,315,000
HI						
ID	5	[illegible]	[illegible]	[illegible]	[illegible]	4,900,000
IL						
IN	4	[illegible]	[illegible]	[illegible]	[illegible]	8,100,000
IA	8	[illegible]	[illegible]	[illegible]	[illegible]	4,445,000
KS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6,146,000
KY	4	[illegible]	—	[illegible]	[illegible]	34,000,000
LA	9	[illegible]	[illegible]	[illegible]	[illegible]	24,180,000
ME	6	[illegible]	[illegible]	[illegible]	[illegible]	2,400,000
MD						
MA						
MI	4	[illegible]	—		[illegible]	98,391,000
MN	13	[illegible]	[illegible]	[illegible]	[illegible]	30,977,000
MS	5	[illegible]	[illegible]	[illegible]	[illegible]	16,600,000
MO	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,436,000
MT	3	[illegible]	[illegible]	[illegible]	[illegible]	5,000,000
NE	7	[illegible]	[illegible]	[illegible]	[illegible]	3,550,000
NV						
NH						
NJ						
NM						
NY	8	[illegible]	[illegible]	[illegible]	[illegible]	7,460,000
NC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	---
ND	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	26,230,000
OH	2	[illegible]	[illegible]	[illegible]	[illegible]	1,000,000
OK	4	[illegible]	[illegible]	[illegible]	[illegible]	6,505,000
OR	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	---
PA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	---
RI						
SC	1	[illegible]	[illegible]	[illegible]	[illegible]	1,750,000
SD	7	[illegible]	[illegible]	[illegible]	[illegible]	18,087,000
TN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19,650,000
TX	14	[illegible]	[illegible]	[illegible]	[illegible]	8,842,000
UT	1	[illegible]	[illegible]	[illegible]	[illegible]	---
VT	1	[illegible]	[illegible]	[illegible]	[illegible]	750,000
VA						
WA	2	[illegible]	[illegible]	[illegible]	1	278,000
WV						
WI	8	[illegible]	[illegible]	[illegible]	[illegible]	1,500,000
WY						
PR	1	[illegible]	1	[illegible]	–	---
TOTAL	182	[illegible]	[illegible]	[illegible]	[illegible]	289,731,000

Lack of Availability of Private Credit

There are those who argue that the need for the program is over because these companies have the ability to borrow from private sources. But let us examine that. Private market lenders normally require 40 to 60 percent equities before they will extend credit. Based upon REA statistics, the average telephone borrower at the end of 1983 had a net equity of 27.6 percent. Private lenders also require a one and one-half times interest coverage ratio test and prefer a ratio of 2 or higher. Most borrowers cannot meet the minimum test much less the preferred one. Also it is important to note that most REA borrowers in terms of the number of subscribers are very small businesses and the territory they serve is extremely sparse: Just over 5,000 subscribers with 4.6 subscribers per route mile of line.

The second part of the budget compromise would raise interest rates on REA loans to the Treasury's cost of borrowing plus 1 and 1/8 percent -- almost a tripling of interest rates this year. The only way for rural telephony to maintain adequate service to their subscribers in the face of rapid technological changes and an aging rural plant is to have access to reasonably priced credit.

The budget compromise ignores the impact of these proposals on the rural society and no studies have been conducted to support them. Since most telephone companies are publicly regulated utilities, the benefits of the low cost REA loans are passed through directly to the subscriber. Under the compromise, telephone costs will skyrocket and needed improvements to the system won't be made. Rural America will once again become a second class segment of our society.

Rural Telephone Bank

In 1981, Congress authorized the additional government purchase of $300 million of Class A stock from the Rural Telephone Bank in the amount of $30 million per year for 10 years. The budget compromise proposes to eliminate this funding for FY 1986. This Administration has made the same request every year and has sought rescissions for each prior year's capitalization provided by the Congress.

Congress originally established the Rural Telephone Bank in 1971. Its purpose is to provide a supplemental source of financing for REA telephone borrowers who can afford to pay a higher rate of interest, thus relieving the pressure on the lower interest insured loan program. The Bank is required under its enabling legislation to lend at its cost of money.

It has proved to be a highly successful institution. Each annual increment of capital is vital to the full capitalization of the Bank, thus enabling more and more insured program borrowers to graduate to bank financing fulfilling Congress' objectives. This Committee and the Congress as a whole has recognized the essential nature of this ongoing additional capitalization process by providing full funding for each of the first four fiscal years, 1982-1985.

The purpose for government purchase of Class A stock in the Bank is to obtain a lending rate somewhere between the insured lending rate and the full cost of money rate. The infusion of the $30 million per year into the Bank permits the Bank effectively to achieve this rate, enabling more borrowers to be weaned away from the five percent statutory insured rate. The bank rate has been at 9.5 percent since April of 1984.

In our judgment, the Rural Telephone Bank is the cornerstone of financing for REA telephone borrowers for the future and hopefully, will be the institution which will ultimately provide all of the debt capital needs. The Bank's capital strength is a vital factor in this process. Therefore, we respectfully request that the Committee continue the appropriation of $30 million next year for government purchase of Class A stock in the Rural Telephone Bank.

Conclusion

Mr. Chairman, the REA program is facing its greatest challenges. In addition to the proposal to completely phase out the program, efforts are currently underway to undermine its effectiveness administratively. The proposed elimination of engineering standards, transfer of budget and personnel support functions to other agencies within U.S.D.A., and the adoption of a regulation concerning general funds are examples. All are designed to restrict the availability of funds and the effective operation of the program as intended by the Congress. While time will not permit me to go into detail today I would urge the Committee to carefully evaluate each of these proposed changes before they are finally adopted. Some, we believe, go beyond the authority of the Administrator under the Act and all undermine the effective operation of the program as intended by Congress. For example, over 70 percent of the telephone borrowers will be written out of the program administratively if the proposed general funds regulation is adopted.

Thank you again for the opportunity to present our views concerning this program which is as worthy and necessary today as it was when originally enacted. The costs of providing telephone service in rural areas are much greater today than they were in 1949. And, the service territories are equally sparse. As you so ably pointed out Mr. Chairman, when the Administrator appeared before you last month, user costs in rural America would skyrocket if this program were eliminated. REA is celebrating its 50th year. It has an enviable record of accomplishment. Let's hope it has 50 more.

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

STATEMENT OF BOB BERGLAND, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER

Senator BURDICK. Senator Andrews, you may have the chair.

Senator ANDREWS [presiding]. Our next witness is Mr. Bob Bergland, the executive vice president and general manager of the National Rural Electric Cooperative Association.

Bob, good to have you here. It is almost like old times.

Mr. BERGLAND. He was one of the good guys. He has some of the light soil, not that heavy, gummy stuff.

Senator BURDICK. He operated on the east side of the river.

Senator ANDREWS. But that is the forgiving side, where you can be a good farmer.

Mr. BERGLAND. I wish my grandparents could be here to hear that. They homesteaded the Crosby in 1884 and lived in a sod house. Grandma said if they were going to live that way, they were going to move.

Senator ANDREWS. You moved to Minnesota to get to that lighter, sandier soil. When my grandparents came out to Makeland 5 years before yours got to Crosby, they figured they could take the tougher winters. Yours had to drift back to the easier area in Minnesota.

Good to have you here.

Mr. BERGLAND. Mr. Chairman, members of the committee, I do have a rather lengthy statement with documents and charts which we would like to insert for the record. If it pleases the committee, I would break it down and present some of the highlights.

Senator ANDREWS. Let me assure you that your entire statement will appear in the record in full.

[Mr. Bergland's prepared statement appears at the conclusion of his oral testimony.]

Mr. BERGLAND. Thank you, Mr. Chairman.

Before I present the NRECA's recommendation for the REA loan programs for 1986, I would like to respond to several proposals regarding the REA financing which are contained in the so-called Deficit Reduction Agreement announced on April 4 by President Reagan and the Senate leadership. This agreement, if implemented as presented, would more than double the interest rate on REA-insured loans from the current fixed rate to one based on the market rate plus 1/8 percent, and it would gradually phase out the REA loan programs over the next 8 years. The rationale for these devastating changes is built upon two assertions contained in the Senate-White House agreement that we think are totally and flagrantly erroneous. The agreement contends that, and I quote now, "Today, residential consumers in REA service areas enjoy electric rates that are 12 percent lower than residential rates in non-REA service areas."

This erroneous statement is directly contradicted by REA's detailed and accurate analysis of rate comparability, which concludes that almost three-fourths of all rural electric systems have rates higher than comparable utilities. REA's data also indicates a rapid deterioration in rate comparability of rural systems. Increasing the financing costs to rural electric systems would only serve to accelerate this process and spread even further the gap between rural and nonrural consumers' electric bills.

The Senate-White House agreement further states that, and I quote again, "Since Congress fixed interest rates at 5 percent on REA direct loans and established the REA Loan Program in 1972, approximately $41 billion in credit subsidies has gone to rural communities." By no reasonable definition can this $41 billion figure, which appears to represent the total amount of REA insured and guaranteed loan commitments since 1973, be labeled "credit subsidies," a term which clearly implies cost to the Government. About four-fifths of these loan commitments have been made at the Government's cost of funds plus one-eighth of 1 percent. Thus, the great bulk of REA financing is at market rates and involves no "credit subsidies."

We hope that the members of the committee will help to set the record straight in these key points when the Senate debates its deficit reduction agreement in the days which are to come. With that, Mr. Chairman, let me get back to the specific recommendations which we have on the REA budget for fiscal 1986.

For insured loans, we recommend a minimum, or floor, level of $650 million and a maximum, or ceiling, of $850 million. This represents a reduction of 24 percent from the 1985 floor, and $250 million below the 1985 ceiling. These recommended levels are based on maintaining the same loan ratios that were used in fiscal year 1984.

For loan guarantees, we believe a minimum of $850 million and a maximum of $1.9 billion will be needed to meet the demand for these loans next year. Our recommended levels in this category are 29 percent below the 1985 floor and $300 million under the 1985 ceiling. These would be the lowest levels in the history of the Guaranteed Loan Program.

We recommend also that Congress reject the administration's rescission of the $216 million in fiscal 1985 appropriations for the rural electric and telephone revolving fund.

We urge and have based our recommendations upon maintenance of the current ratios and criteria applied to supplemental loan requirements for insured lending, and strongly oppose any plan to arbitrarily limit the application of the REA guarantee to some fraction of the borrower's capital needs.

We fully recognize that the amounts we are recommending for fiscal 1986 are substantially lower than those which NRECA recommended and Congress approved last year. There are those who undoubtedly will cite this decline in loan demand as evidence that the job at REA is done and that the agency and its lending programs are no longer needed. This is by no means the case.

Our systematic survey of borrowers and my own personal contacts with co-op managers and directors in many States over the past few months clearly indicate that the current slump in loan demand is transitory and could reverse itself at any time. There are strong signs also that the dropoff in loan demand is due in large measure to the administration's own actions over the past few years.

One key factor, of course, is the depressed state of the rural economy. The fact that much of rural America has been excluded from the economic recovery of the past few years has had a significant dampening effect on the rural electrics' need for capital. Generally depressed conditions combined with continued high mortgage interest rates have reduced the housing construction in many rural areas to near zero.

While on the subject of housing, let me take a moment to emphasize our serious concern regarding the administration's proposals that would virtually eliminate Federal assistance for rural housing programs. These programs have been instrumental in stabilizing our rural population and have provided economic value many times their cost to the Government. For the past 5 years, however, rural housing programs have either been frozen or cut, denying millions of rural Americans the opportunity to obtain decent housing. Given the precarious condition of some rural financial institutions and the credit crisis throughout rural America, we strongly believe rural housing programs adminstered by the Farmers Home Administration are more important now than ever and should be restored to levels commensurate with need. It is clear that any upsurge in rural housing and farm income improvement will result in a substantial increase in the rural electrics' capital needs.

Another reason we have identified for the fall-off in REA loan demand is the fact that many systems have been financing a significant portion of their construction and capital improvements using internally generated funds rather than borrowed money. In some cases, they have been able to do this because anticipated increases in power costs have not occurred due to the slackening of inflation and the stabilizing of fuel costs over the past few years.

In addition, encouragement from REA to build equity and pressure from other lenders to maintain a TIER of at least 2.5 have led some co-ops to have operating margins above historic levels. These higher margins contribute to the co-ops' supply of internally generated funds and reduce the need for new borrowing.

In the past, when margins have been higher than planned or needed, they typically have been returned to the co-op's members, either through payment of capital credits or through lower rates. At present, however, many co-ops are holding on to these funds. They are doing so largely, we think, because of their concern about the future of the REA program.

The President's budget submitted earlier this year clearly states the administration's desire to shut down the REA lending program within the next 5 years and exclude some systems from borrowing before then. Widely circulated, although not yet officially published, regulatory proposals from REA would place hundreds of co-op borrowers between the proverbial rock and the hard place. These new limits on co-op working capital would punish those systems that have followed REA advice by building equity and maintaining their TIER. If these regulations are put into effect, as many as 700 current borrowers will face an extremely unfair and unnecessary dilemma. They can choose to preserve a prudent financial cushion in view of an uncertain future, and in so doing, lose their access to both new REA loans and advances of funds already committed in previously approved loans, or they can reduce working capital and risk disaster if the administration should succeed in a plan to eliminate the REA.

Mr. Chairman, we know that the ultimate goal of the administration—the elimination of REA lending programs and extinction of REA as an independent agency—cannot be accomplished without Congress agreeing to it. We are confident that a substantial majority of both the House and Senate have sufficient awareness and appreciation of the importance of a strong rural electrification program that they would not make drastic changes in the legislative basis for that without taking due consideration of all factors. Proposals have been made, for example, to eliminate some of the key functions of the agency, including the very important engineering standards. It is because of the REA's early insistence upon sound and consistent engineering that rural electrics have been the envy of the utility industry as far as reliability and ability to respond to disaster and emergency situations are concerned.

As primary lender to the distribution systems, REA has a unique ability to perform this key function and currently does so at a cost of less than $1 million per year.

Fifty years ago next month, the Government entered into a partnership with the people of rural America, a partnership created to bring the rural areas of our Nation out of darkness and make it possible for all of our citizens to enjoy the benefits of adequate, reliable electric service at rates that the average person could afford.

The nature of that partnership has changed over the years. As the rural electric systems have become stronger, they have assumed an even greater share of the burden and responsibility for themselves. We expect that trend to continue.

Finally, this is a very critical time for the REA. Rural co-ops, like other types of utilities, will face tremendous challenges in the balance of this century and beyond. We are ready to do all we can to meet those challenges, but we strongly believe that the original partnership of Government and its people must be maintained.

Mr. Chairman, thank you very much for this time. We would be pleased to respond to questions.

Senator ANDREWS. Mr. Bergland, thank you for an excellent statement. No one knows better than you, of course, the great contribution our rural electric co-ops have made to this country. You and I are farmer neighbors, and I can assure you that I know how much of a contribution it has made personally, too, because my wife and I didn't have electricity in our farm home when we were first married. If I ever forget how important rural electrification is, my wife will be sure to remind me. It is that simple.

You mentioned—and you well know, that our challenge here on this committee is to get the facts in the record so that when we carry this bill to the floor, we can support the decisions of the members of this committee—that one of the charges made by the administration, Mr. Bergland, is the one that you referred to in your statement, that electric costs are 12 percent lower for rural electric co-op customers than they are for private utility customers, which smacks of a subsidy for lower prices and all of that.

That just isn't the case, to my knowledge. As I understand it, we did a study some 3 or 4 years ago, and we consistently found that in the same areas of the country, rural electric rates were somewhat higher than private utility rates in the same general power supply area.

Is that still true?

Mr. BERGLAND. Yes, Mr. Chairman. The REA conducts these studies from time to time, and I have a document here which I would be delighted to submit for the record. It comes from Mr. Joe Zoller, the Assistant Administrator for Electric Programs, in which they publish the conclusions and the studies. In 1982, for example, we found that about one-half of the electric systems had rates which were higher than the neighboring investor-owned utilities, but by 1984, that fraction had risen to 72.3 percent and is climbing. Our cooperatives are losing ground. Rates are climbing higher than the investor-owned utilities in the same area served. So the situation is worsening.

[The information follows:]

RURAL ELECTRIFICATION ADMINISTRATION STUDY

SUBJECT: Comparison of Residential Electric Rates at 1,000 kWh Usage per Month – REA Borrowers with Comparable DOE Data (January 1, 1984)

TO: Joe S. Zoller
Assistant Administrator – Electric

THROUGH: Charles R. Weaver, Director
Electric Borrowers Management Division

Enclosed is a listing by states and areas of the number of borrowers with electric rates for residential service at 1,000 kWh usage per month higher or lower than the comparable DOE utilities. Data are at January 1, 1984.

Reconciliation to the total population of distribution borrowers is:

REA borrowers are higher	664	72.3%
REA borrowers are lower	255	27.7%
	919	(NOTE)
Borrowers not compared	11	
Total population	930	

Comparison of Jan. 1, 1984 with the prior 2 years shows:

	1/1/84	1/1/83	1/1/82
REA borrowers are higher	72.3%	68.7%	54.1%
REA borrowers are lower	27.7%	31.3%	45.9%

(NOTE)
For 1/1/84 in Indiana the comparable DOE utilities were changed for some 23 borrowers to more accurately reflect service areas. This change resulted in 23 borrowers showing comparable rates as higher than would have resulted from using the same comparisons as in prior years. If comparisons had remained unchanged, the totals would have been:

REA borrowers are higher	641	69.7%
REA borrowers are lower	278	30.3%

DAVID J. LESSELS
Rate Policy Specialist
Electric Borrowers
Management Division

Enclosure

REA BORROWERS RATE AT 1,000 kWh PER MONTH COMPARED TO DOE UTILITY AT JANUARY 1, 1984

	Member of Borrowers	REA is Lower as January 1 1984	 1983	 1982
Northeast Area				
Delaware	1	1	0	1
Indiana (Note)	41	12	35	36
Maine	4	0	0	1
Maryland	2	0	0	1
Michigan	13	0	0	0
New Hampshire	1	1	0	1
New Jersey	1	0	1	1
New York	4	4	4	4
North Carolina	28	10	9	21
Ohio	27	15	10	5
Pennsylvania	12	1	9	9
Vermont	2	1	1	2
Virginia	13	4	6	7
West Virginia	1	0	0	1
	150	49	75	90
Southeast Area				
Alabama	23	13	11	10
Florida	15	0	0	4
Georgia	42	8	1	14
Kentucky	26	3	0	0
Mississippi	23	13	13	11
South Carolina	20	8	8	18
Tennessee	24	3	1	1
	173	48	34	58
North Central Area				
Illinois	27	1	11	6
Iowa	48	16	11	26
Minnesota	48	14	18	26
North Dakota	21	5	10	18
South Dakota	32	17	21	22
Wisconsin	29	1	2	2
	205	54	73	100

Southwest Area				
Arizona	10	3	3	6
Arkansas	18	1	1	14
Louisiana	12	1	0	1
Missouri	41	13	18	30
New Mexico	16	6	7	9
Oklahoma	27	1	1	1
Texas	75	20	16	30
	199	45	46	91
Western Area				
Alaska	14	2	2	1
California	3	2	3	3
Colorado	22	7	10	16
Idaho	9	1	3	3
Kansas	35	14	12	19
Montana	24	11	13	14
Nebraska	32	3	4	6
Nevada	6	5	5	6
Oregon	14	1	0	4
Wyoming	14	4	3	3
Washington	15	5	2	4
Utah	4	4	3	4
	192	59	60	83

Senator ANDREWS. So, Mr. Bergland, not only is the administration's statement inaccurate, but the trend line is actually moving in the opposite direction?

Mr. BERGLAND. Yes, sir, it is, very definitely.

Senator ANDREWS. In the Pacific Northwest, for instance, a rural electric cooperative would be generating electricity more cheaply than would a private utility on Long Island, when they are burning imported fuel. But in comparable years, the rural electric co-op nevertheless always has to charge somewhat higher rates because of the lower density of its cuts. I was one of the sponsors of the act when we amended it 10 or 12 years ago, and we looked on density as the criterion. With funding for rural electric loans down, we certainly don't have lower cost power, but we can try to achieve comparability in rates, so that rural rates stay within 15 or 20 percent of what our city cousins are paying. Isn't that essentially the current situation?

Mr. BERGLAND. Yes, Senator. In fact, in your own State of North Dakota, there are 21 rural electric borrowers. Of that group, only 5 have rates which are lower than a comparable investor-owned utility. That situation is much worse than it was even 6 years ago.

Senator ANDREWS. Why do you think the comparative rate situation has changed, this pattern from 50 percent of rural utilities charging higher rates to 75 percent? Why is the disparity growing greater now instead of staying the same?

Mr. BERGLAND. The main reason is the density factor. It is just much more expensive to maintain an electric utility company in a State like

North Dakota where you have much lower density than in New York City, where you have 40 consumers per mile, which is the average of the investor-owned utility community. The co-ops have about five consumers per mile of line. It is inherently more expensive to bring electricity to those regions. That is rising as time goes on. It is a function of distance.

Senator ANDREWS. It also is obvious to this committee that rural electrification is being nibbled away by attempts to change the regulations, attempts to make changes outside the realm of congressional authority. Have you detected this kind of nibbling away, this gradual changing of regulations that is undermining the ability of rural electric co-ops to continue to serve?

Mr. BERGLAND. We have, Mr. Andrews. For example, the proposal which the administration has talked about that would change the general funds policy would eliminate about 700 systems from the REA eligibility. This would do by rule what Congress has never been willing to do by law. The business of the role of REA and the cooperatives in the rural communities has been debated in Congress from time to time, and the program has been reaffirmed and reestablished and mandated to continue to provide this leadership.

The rule which is being discussed now has not yet been published, but if it comes in the form that we have heard about, at least, it would have a devastating effect on the ability of the rural systems to maintian this high-quality service at rates which most people can afford, although it is getting more and more difficult as time goes on, especially with the farm depression.

But the fact is that that rule would be devastating to us, and if it is implemented in its present form, it would succeed in eliminating the program, you might say, without an affirmative act of Congress.

Senator ANDREWS. About a month ago Harold Hunter, who is the Administrator of REA, was testifying before this subcommittee. I had heard these kinds of rumors. I asked him flat out if they were changing the regulations. He sort of slipped, slid, and ducked around the issue and gave a rather evasive answer, to say the least. Have we asked him for clarification on those answers? What I want to do at this point, is insert in the record the definitive answers to those questions that were answered in such a, shall we say, cloudy, foggy way about a month ago so we can have that information on the record. I appreciate your pointing that out, Mr. Bergland.

[CLERK'S NOTE.—Revised and clarified answers and submitted information are included in the transcript of the March 14, 1985 hearing where Mr. Hunter appeared before the subcommittee. Senator Andrews' questioning begins on p. 549 of part 1 of the fiscal year 1986 subcommittee hearings.]

Senator ANDREWS. Senator Burdick.

Senator BURDICK. Thank you.

It is good to see you again, neighbor. I notice in your statement you say that the NRECA makes the following recommendations: For the electric program lending in fiscal 1986, insured loans, $650 million floor, $850 million maximum. How does that compare with last year?

Mr. BERGLAND. That will be down $200 million from a year ago. The cooperatives are borrowing less than ever, at least in recent past. I have attended 12 statewide meetings of cooperatives in the past 2 months, and in every instance, I have asked local directors and managers why this fall-off in lending activity. In every instance, it has come back that the problem is either depressed farm income or housing or both.

Now they all tell me that when the farm income turns around and when housing gets back into full bloom that the demand on the local systems will increase, and then they are going to need to borrow money.

But for now, we are in kind of a holding pattern.

Senator BURDICK. I notice on the guaranteed loans that the minimum floor is $850 million and the maximum ceiling is $1.900 billion, is that correct?

Mr. BERGLAND. Yes, sir, that is true. That would be down $350 million from last year, and most of the loan guarantees are used to finance generating and transmission facilities. We have at least adequate power supply capacity to meet the current levels. We do not expect any new power plants will be built in the next several years. The moneys which we are requesting will be used for the most part for transmission and subtransmission and some other less expensive investments, but no new power plants are contemplated, at least.

Senator BURDICK. That ceiling, however, as you have testified a few minutes ago, is the lowest level in REA history.

Mr. BERGLAND. The lowest ever, yes, sir.

Senator BURDICK. I think you are going a long way to accommodate the budget when you make these recommendations.

Mr. BERGLAND. Senator Burdick, it has been the tradition with rural electric cooperatives that we would not ask for more than we need, but we would ask for only what was justified. We are acknowledging the current conditions out there, but we are also stating that this is not, hopefully, this is not a permanent downturn. Yes, we see an economic depression in the rural areas, but we think things will come back, and when they do come back, these cooperatives will need to have access to a fund which can finance their requirements, and REA must be there to help.

Senator BURDICK. Mr. Bergland, I think your testimony is fair and very reasonable. I think it is something we can support.

Mr. BERGLAND. Thank you, Senator.

Senator ANDREWS. Senator Bumpers.

Senator BUMPERS. Mr. Secretary, what is an insured loan?

Mr. BERGLAND. An insured loan is an arrangement where the REA borrowers make their loan payments to a revolving fund which was established by law in 1973. That fund then re-lends money back to the systems, and in the vernacular of the agency, that is called an insured loan arrangement.

Senator BUMPERS. Do you know how much money is in the revolving loan fund now?

Mr. BERGLAND. Not exactly, but there was $7.9 billion in outstanding REA loans and other funds which were transferred to the revolving fund when it was created by law in 1973. As borrowers pay off their principal payments and interest payments on schedule, that goes into this fund, and it is re-lent on a revolving fund basis.

Senator BUMPERS. So the Government would not be asked to put in additional money in 1986, in your opinion, under the insured loan fund?

Mr. BERGLAND. Not any, no, sir.

Senator BUMPERS. None.

Mr. BERGLAND. None.

Senator BUMPERS. What is the current interest rate of insured loans?

Mr. BERGLAND. Five percent.

Senator BUMPERS. Since there is more than enough money in that fund, that means you are not going to have to ask the Government for more money, and you are not going to have to go into the marketplace for more money. Is that fund self-sustaining at this point?

Mr. BERGLAND. It is, as long as the demand for credit is at this level, yes, sir.

Senator BUMPERS. What qualifies somebody? Is the guaranteed loan a Government guaranteed loan?

Mr. BERGLAND. That is. It is used to finance power plants, primarily, and it can either be through the Federal Financing Bank or it can be an independent guarantee where banks put up the moneys privately and the Government guarantees repayment.

Senator BUMPERS. Is that a going interest rate, whatever you negotiate?

Mr. Berglend. That is at Treasury cost plus ⅛ percent.

Senator BUMPERS. Plus one-eighth?

Mr. BERGLAND. Yes, sir.

Senator BUMPERS. How do you determine whether or not your applicant, one of your cooperatives, is entitled to an insured loan or a loan guarantee? Obviously, one is much more advantageous at 5 percent.

Mr. BERGLAND. The insured loan program out of the revolving fund was created explicitly to handle the requirements of distribution cooperatives. While there can be, and there has been on occasion, some small loans made to the power supply side of the industry from the revolving fund, the way it has been managed clearly makes a distinction between a distribution cooperative with problems which are unique to that enterprise as opposed to generating cooperatives where the creditor requirements are much larger and the financing schemes are quite different.

Senator BUMPERS. That is an excellent explanation.

What did some of the people in the Senate and the President last week over at the White House agree to? What was their agreement as to these two programs?

Mr. BERGLAND. As near as we can tell from published accounts, the agreement was that the interest rates in the revolving fund would rise to Treasury costs plus 1/2 percent, which would effectively put REA out of business.

The second is, it would phase out the agency's existence over the next 8 years.

Senator BUMPERS. That is the second thing. That is just a policy matter—to phase out the agency over the 8-year period.

Mr. BERGLAND. Yes, sir, it is. But if approved, it would establish a record by which or a schedule by which this phaseout must be accomplished.

Senator BUMPERS. Who is going to take them over if it is phased out?

Mr. BERGLAND. Well, the contingency plan in the agreement reached, as near as we can tell, this would be left to each cooperative to fend for itself. Some could handle their credit requirements, I suppose, but many of these would have a very hard time getting financed in the private market without some Federal help.

Senator BUMPERS. When you say phased out, then, what you mean is they are proposing to cut them loose on their own with no guaranteed loans, no Federal replenishment of the revolving fund, nothing. They would just be on their own to do whatever they could do?

Mr. BERGLAND. That is correct.

Senator BUMPERS. Did you say that electrical cooperatives in this country have 4 customers per mile as compared to 40 for the privately owned utilities?

Mr. BERGLAND. About 4½ consumers per mile of line per rural electric cooperative and the investor-owned utilities have an average of 40.

Senator BUMPERS. Forty.

Mr. BERGLAND. Forty. We have about 70 percent of the land mass of the United States covered with rural electric cooperative lines. We have only 15 percent of electric power business. It is inherently more expensive to run a rural co-op than it is to run a utility in a city.

Senator BUMPERS. That is a very interesting statistic. Let me just ask you finally about the loans. I used to represent rural telephone companies who got REA loans when I was practicing law. Do they get this out of the insured fund?

Mr. BERGLAND. May I yield to my colleague, John O'Neal, who is a telephone expert?

Senator BUMPERS. Sure. If there is anything we need around here, it is experts.

Mr. O'NEAL. I am not sure I qualify on that basis, Senator, but I do represent commercial rural telephone companies, and I would be pleased to respond to your question.

Yes; they borrow money. Essentially, the programs are the same on the telephone side as they are on the electric side. So there would be an insured program, a guaranteed program, and in addition, a Rural Telephone Bank program, all of which lend funds at different interest rates.

Senator Bumpers. What is the basic criteria for determining whether or not a telephone company is eligibile for an REA loan?

Mr. O'Neal. The threshold test is whether or not they are serving a rural area. There is 1,500 population or less, and then as between the various programs that are offered by the Rural Electrification Administration, it depends upon the financial health and welfare of not only the company, but the territory served.

Senator Bumpers. Is the rationale for REA being in the telephone business the same as it is for electricity—it just takes a lot more line to serve a customer?

Mr. O'Neal. Yes, sir; these are very, very thin territories. To try to compare the statistics that were offered by Mr. Bergland a few moments ago, in rural telephone systems, in my time, I mentioned based on REA statistics, they serve an average of about 5.6 customers per route mile of line. That is compared with 50.

Senator Bumpers. How many?

Mr. O'Neal. 5.6 customers per route mile of line. That is on a national average basis. In some of these other Senators' territories, it is a lot thinner than that.

The Bell average, for instance, is over 58 per mile. It is just a matter of economies of scale and the fact that contrary actually to the electric business, in the telephone business, when the act was amended to permit telephone companies to borrow in 1949, there were a lot of telephone companies serving rural areas. They were undercapitalized, underfinanced and generally provided very poor service. Over 5,000 companies were out there.

REA provided a mechanism where these companies would upgrade their facilities. They couldn't borrow money locally. They couldn't borrow from their local banks, and so REA provided that mechanism. It was a tried and true mechanism on the electric side that had been working since 1936, and these rural companies, then, were allowed to come in. There are about twice as many commercial companies borrowing from REA as there are cooperative-type companies. That is just a fact of life that these companies existed in 1949 and they were able to come in and upgrade their facilities through REA financing.

Senator Bumpers. Can you tell me the total amount of telephone loans there are outstanding right now?

Mr. O'Neal. I would be happy to provide it for the record.

Senator Bumpers. Please provide it for the record and send it to my office.

Mr. O'Neal. I certainly will.

[The material is provided in a later response during this hearing on page 107.]

Senator Bumpers. Secretary Bergland, would it be fair to summarize your statement by saying that what your organization is saying is that there is less budgetary impact on what you are requesting?

Mr. Bergland. Yes; the request we are making will reduce REA loans and loan guarantees for fiscal year 1986. REA will need to secure financing from the Treasury only to the extent that it sells CBO's to the Federal Financing Bank.

Senator BUMPERS. Thank you, Mr. Chairman.

Senator ANDREWS. Thank you, Senator. Mr. O'Neal, I appreciate your coming back to the table, because you brought out something that I think is important to emphasize yet again. Mr. Bergland said on behalf of the Rural Electric Co-ops that the rural electric program is needed because the rural utilities have only 1 consumer for the same length of line that serves 10 consumers for the private utilities. You just said that for rural telephones, it is the same 10-to-1 ratio. A large share, in fact almost the entire share, of the cost of providing telephone service is incurred by the amount of line which needs to be strung, and it costs 10 times as much per customer to provide that service in rural areas as compared to nonrural areas. That is why this kind of program has been around for these 50 years. Both of you pointed out that you hope, and I hope too, that we can keep going for another 50 years, not giving a subsidy to rural America, but providing some comparability of cost so that telephone service and electricity will be available at comparable prices for rural Americans and smalltown Americans, so that telephone and electrical bills don't become just another incentive to move to the already overcrowded cities.

In fact, Senator, I think we can make an excellent point: If we add yet another reason to move off the land, depopulate the rural areas, and move into the cities, it may well end up costing us more to provide the additional housing, transportation, sanitation, and other facilities in the overcrowded urban areas to take care of these people than it does to provide these minimal programs which allow rural Americans to choose to remain where they are.

There is one other question that I wanted to ask Mr. Bergland, but I yielded to my colleagues because I didn't want, as chairman, to take up too much of the time, and I knew they would have some important points to make.

Last year, Mr. Secretary, the Senate considered S. 1300. As I recall it, that was a bill to raise the rates charged to rural utility companies, and the administration opposed that legislation at that point in time. Now they seem to be reversing their field. Why has the administration changed its attitude from a year ago?

Mr. BERGLAND. Well, I can't speak for them, of course, but my judgment is that they were opposed primarily to the bill, S. 1300, because it would establish a permanent presence in REA. It would be made a permanent function and the interest rates charged to borrowers would increase, of course, from the current statutory 5 percent to a blended rate probably running 8 or so percentage rates. Along for an increase in interest rates, we want to have some permanency in this plan, and it made sense. It was a compromise in this regard. We could never get the administration to agree to that package.

Now they are back and they just want to unilaterally end the program and raise rates to levels which are prohibitive.

Senator ANDREWS. Our package, which was sponsored by a number of us in the Senate and was, in fact, the NRECA bill, S. 1300, saw a problem down the line and recognized that rural electric co-ops were willing to bear some increased costs to keep the fund solvent.

Mr. BERGLAND. Absolutely.

Senator ANDREWS. It was a fair and equitable approach on both sides, and because it wasn't enacted, the fund is getting into more and more jeopardy, although we have saved money for rural electric cooperative members and rural telephone cooperative members because we didn't adopt it. The solution to the fund's problems appears even further away. That is tragic.

Mr. BERGLAND. Yes, Mr. Chairman. That bill was a compromise between the current law and what we regard as the long-range financial requirements of the industry. It failed to pass, of course, and now the credit demand is down substantially, so we have a little breathing room. We think this is the time to be thinking about 4 or 5 years hence when we think the building boom will return and the REA program won't be able to keep up with that demand. But for this year, we are just saying that we are prepared to mark time and there is less money required, but this is a temporary downturn.

Senator ANDREWS. One final comment, and this is one of the things that bothers us. Let's move away from focusing only on rural America, because we have to make our requests for support for these programs not just because of the need of rural Americans, but because of what it does for the entire Nation. One of the problems we are now facing in America is the imbalance of payments in our international trade, $120 billion this past year. It is killing us, the manufacturing industries and farm industries and all the rest.

Another ongoing challenge is the defense of our country. Energy independence is vital to both more balanced trade and a more secure defense. We are importing $60 billion worth of energy this year from such wonderful friends as Iran, Iraq, and Libya and all those long-time dependable and steadfast friends. As a matter of fact, the Defense Department is asking those of us who serve in the Defense Subcommittee of this committee to appropriate $23.4 billion for a Rapid Deployment Force to keep that oil in the Mideast secure.

As the leader in the rural electric movement, couldn't our rural electrics move America a long way toward achieving energy independence if we give them adequate funding so they can use heavier lines and help shift our rural families to natural gas heat, bioelectricity and other systems that use American fuels instead of the imported petroleum that costs us so dearly?

Mr. BERGLAND. Yes, Mr. Chairman, that is true. There is a long list of new and very efficient electrically powered appliances and devices which are now finding their way to the marketplace. We can say without fear of contradiction that we could, if called upon, use electric power-drive coal or hydro or nuclear or other forms of energy and displace large amounts of oil now used for heating or natural gas which is now used for crop drying and other energy requirements—not only on farms, but in rural homes. We are experimenting with using electricity in other forms. For example, we are working with the University of South Dakota in developing an electric tractor. This has been developed now. We are of the opinion that we will see electricity used in many new forms not even thought about as recently as a couple of years ago. This will further help us reduce our dependence on this dangerous war-torn region of the Middle East.

Senator ANDREWS. But healthy rural electric co-ops during the next decade are imperative to make this progress toward energy independence; isn't that true?

Mr. BERGLAND. Yes, Mr. Chairman. If something should suddenly break out in the Middle East and our supplies were in jeopardy and prices start to climb, we know that there would be a heavy demand placed upon the rural electric systems to provide this electric power. Electricity is unique. It is a commodity which cannot be stored. Whenever a consumer goes to the wall and presses the button, he or she knows that the thing will work. We have to have the ability to finance this supply as the demand develops. We don't know whether this will come next month or next year or when, but we know it will come. The United States and the Soviet Union are the world's two largest oil producers and both are on a downhill slide. The United States has burned more oil than we have discovered for 12 years in a row. The Soviet Union has turned that corner now. We need to prepare for the day when oil will either become unavailable or too expensive for us to use in something as simple as heating a house. Electricity can take up the slack.

Senator ANDREWS. In other words, maintaining a healthy rural electrification program can be seen as a national defense expenditure for this country. That might sit a little better with some of the people downtown. We appreciate your testimony. I will be glad to yield to my good friend. I was down in Arkansas making that point about 7 or 8 months ago, and your Arkansas neighbors thought I was making an excellent point.

Senator BUMPERS. I promise you, they loved it. I heard a lot of comments on your appearance down there.

In line with what you are saying, Mr. Chairman, I think we ought to force the President to accept some kind of a unified version of national security, because it goes a lot further than just planes and tanks and guns, and I think you make an excellent point, Mr. Chairman.

Mr. O'NEAL. Mr. Chairman, if I could add, your point is well taken on the telephone side, as well. Many of these rural telephone systems serve military sites in sparsely populated areas of rural America, including missile sites, and provide a very valuable defense function in that capacity.

Mr. ANDREWS. I well know, there are a number of those Minuteman III missiles up in North Dakota that couldn't get off the ground if it weren't for our rural telephone cooperatives communications carrying the message to those missile silos. So you are indeed an integral, important part of the defense of this country.

I appreciate your bringing that out. Thank you both for your excellent testimony.

Mr. O'NEAL. Thank you, sir. I did find the answer to Senator Bumpers' question. While we are here, if I could read that into the record, in response to your question about the number of borrowers and the amount of money loaned to the telephone programs as of January 31, 1985, under the insured program. Loans have been made to 998 telephone borrowers in the amount of $4.7 billion, and the Rural Telephone Bank has loaned to 546 borrowers for a total of $1.99 billion.

Under REA guarantees, 49 borrowers have been involved for a total of $700 million, and the total of the entire programs are 1,032 borrowers for a total of $7.4 billion.

Senator BUMPERS. Is that the same insured program we were talking about a while ago, Bob? Is that the same insured revolving loan fund that we were talking about?

Mr. BERGLAND. No, sir; this includes REA insured and guaranteed loans to telephone systems and Rural Telephone Bank loans.

Senator BUMPERS. About $7.4 billion is the total outstanding, then?

Mr. O'NEAL. Only on the telephone side, sir.

Senator BUMPERS. I understand Secretary Bergland said a moment ago that that was the total amount in the fund counting outstanding indebtedness and what was on hand. Is that not correct?

Mr. BERGLAND. Mr. Chairman, may we submit this for the record? We will gather up the information requested and provide the committee with the current status.

Senator BUMPERS. I would like to see that. If there is $7.4 billion just in telephone loans, obviously there is a much bigger figure for all cooperatives.

Mr. BERGLAND. Oh, yes, sir.

Senator BUMPERS. I would like to have those figures. Thank you.

[The information follows:]

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

The Rural Electrification and Telephone Revolving Fund was created by Congress in 1973 as a permanent source of capital for REA loans to its electric and telephone borrowers. The initial assets of the fund included nearly $8 billion, representing the total of outstanding REA loans plus funds that had been approved by Congress but not yet advanced by REA.

The fund's levels of lending activity are set each year by the Agriculture Appropriations measures passed by Congress and approved by the President.

In establishing REA's revolving fund Congress provided that all payments of interest and principal made to REA by its borrowers would flow into the fund. These amounts were to be used by REA in making advances on new loans. Additional amounts needed by the fund were to be obtained through Congressional appropriations and borrowings from the U.S. Treasury.

As of the end of fiscal year 1984 the fund held a total of $13.7 billion in REA loans outstanding from electric and telephone borrowers. During 1984 it advanced $780 million in insured loan funds to its electric and telephone borrowers. The table below shows REA loans outstanding at the end of each fiscal year 1974-1984, and REA insured loans advanced during each of these years.

Rural Electrification and Telephone Revolving Fund

($ in millions)

	REA Loans Outstanding at End of FY		REA Loans Advanced During FY	
	Electric	Telephone	Electric	Telephone
1974	$5,607.7	$1,588.0	$680.3	$122.1
1975	6,164.1	1,681.8	711.5	143.4
1976	6,649.4	1,772.6	673.3	142.9
1977	7,261.3	1,909.1	710.8	164.1
1978	7,757.4	1,991.2	736.3	145.1
1979	8,416.4	2,124.0	907.1	198.1
1980	9,106.0	2,292.0	967.7	239.1
1981	9,741.8	2,496.8	923.1	280.7
1982	10,248.5	2,648.8	809.4	238.6
1983	10,604.2	2,741.1	673.7	181.9
1984	10,871.4	2,828.5	592.2	187.8

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STATEMENT OF FINANCIAL CONDITION

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As Of September 30, 1984

IAR NO. 1178 - TD - XX

Account Symbol	Bureau or Fund Name	Bureau Identification No.
12X4230	USDA-REA Rural Electrification & Telephone Revolving Fund	12-3100

ASSETS		
SELECTED CURRENT ASSETS		
1. *Fund balances with Treasury (Schedule 1):*		
a. Budget funds	2,786,591.06	
b. Budget clearing accounts		
c. Deposit funds		
d. Foreign currency funds		
e. Allowances, foreign currency funds (−)		2,786,591.06
2. Federal security holdings (at par)		
Unamortized Premium or Discount		
3. *Accounts receivable:*		
a. Government agencies		
b. The Public a/	58,219,980.80	
c. Allowances (−)		58,219,980.80
4. *Advances to:*		
a. Government agencies		
b. The Public		
5. *Other current assets:*		
a.		
b.		
6. TOTAL SELECTED CURRENT ASSETS		61,006,571.86
7. *Loans receivable (Schedule 9):* b/		
a. Repayable in dollars	10,163,119,410.08	
b. Repayable in foreign currencies		
c. Allowances (−)	-31,878,000.00	10,131,241,410.08
8. *Inventories:*		
a. Items for sale		
b. Work-in-process		
c. Raw materials and supplies		
d. Stockpile materials and commodities		
e. Allowances (−)		
9. *Real property and equipment:*		
a. Land		
b. Structures and facilities		
c. Equipment		
d. Leasehold improvements		
e. Acquired security, pending disposition		
f. Allowances (−)		
10. *Other assets:*		
a. Work-in-process, contractors		
b. Materials and supplies—other		
c. Investment in RTB	390,000,000.00	
d.		
e.		390,000,000.00
f. Allowances (−)		
11. TOTAL ASSETS		10,582,247,981.94

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STATEMENT OF FINANCIAL CONDITION

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As Of September 30, 1984

IAR NO. 1178 - TD - XX

Account Symbol	Bureau or Fund Name	Bureau Identification No.
12X4230	USDA-REA Rural Electrification & Telephone Revolving Fund	12-3100

LIABILITIES		
SELECTED CURRENT LIABILITIES		
12. *Accounts payable (including funded accrued liabilities):*		
a. Government agencies		
b. The Public	856.35	856.35
13. *Advances from:*		
a. Government agencies		
b. The Public		
14. Deposit Fund Liabilities		
15. *Other current liabilities:*		
a.		
b.		
16. TOTAL SELECTED CURRENT LIABILITIES		856.35
17. *Unfunded liabilities:*		
a. Accrued annual leave		
b.		
c.		
18. *Debt issued under borrowing authority:*		
a. Borrowings from Treasury (Long-Term)	7,864,742,067.68	
b. Agency securities outstanding:		
(1) Participation certificates		
(2) Other		
c.		7,864,742,067.68
d.		
19. *Other liabilities:*		
a.		
b.		
20. TOTAL LIABILITIES C/		7,864,742,924.03
GOVERNMENT EQUITY		
21. *Unexpended budget authority:*		
a. Unobligated	2,528,966,086.99	2,528,966,086.99
b. Undelivered orders		
22. *Unfinanced budget authority (–):*		
a. Unfilled customer orders		
b. Contract authority		
c. Borrowing authority	2,467,960,371.48	-2,467,960,371.48
23. Invested capital		2,656,499,342.40
24. *Other equity:*		
a. Receipt account equity		
b. Unappropriated receipts (–)		
c. Foreign currency fund equity		
d. Miscellaneous equity		
25. TOTAL GOVERNMENT EQUITY		2,717,505,057.91
26. TOTAL LIABILITIES AND GOVERNMENT EQUITY		10,582,247,981.94

AGENCY CONTACT	Preparer's Name Kenneth W. Breen	Telephone Number (202) 382-8841
	Address USDA-REA, FAD-FCS, Room 2125-S, Washington, D. C. 20250	
	Supervisor's Signature Bertram L. Croushorn	Telephone Number (202) 382-8840

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United States Department of Agriculture
Rural Electrification Administration
Rural Electrification and Telephone Revolving Fund

Footnotes to Statement of Financial Condition
as of September 30, 1984

a/ Line 3b

Includes $18,117,197.49 interest accrued during periods ranging up to the first 60 months of notes, payable thereafter in equal periodic installments over the remaining life of the notes.

b/ Line 7a

Analysis of Loans Receivable:

Gross	$13,787,590,781.50	
Less: Advance Payments	87,764,371.42	$13,699,826,410.08
Less: Sale of Certificates of Beneficial Ownership to FFB		3,536,707,000.00
Net		$10,163,119,410.08

c/ Line 20

REA is contingently liable for:

(1) Insured loans sold under Certificates of Beneficial Ownership to FFB	$ 3,536,707,000.00
(2) Guarantees of loans - FFB	21,100,599,206.00
(3) Guarantees of loans - other lenders	931,321,143.64
	$25,568,627,349.64

It is not anticipated that there will be any loss in connection with the loans supporting CBO's.

Senator BURDICK. Mr. Chairman, I think I will have a parting shot here.

Senator ANDREWS. Yes, sir.

Senator BURDICK. I have been listening attentively to all the testimony this afternoon. We have been talking about the celebration of the 50 years. I have heard all you gentlemen testify about the ratios out there of 1 to 10 in the rural areas, the density factor. That is the reason why we have a rural electrification program in the first place, because 50 years ago the companies weren't doing well in the rural areas to bring this service. Do we have the same problem today?

Mr. BERGLAND. Yes, we do, Mr. Chairman. A cooperative is really a unique creation in that it does not have to return a dividend to an investor. It only has to provide service to its membership at the lowest possible cost to all customers, blanket coverage, postage stamp rates; we charge everybody the same. We do not discriminate. Anyone who moves into a system is entitled to receive this service.

Senator BUMPERS. Arkansas Valley Electric Cooperative, which is one of the 17 cooperatives in my State and probably about the third biggest, started out in the back of my father's hardware store back in 1937 or 1938, somewhere along in there. I remember it well.

Senator ANDREWS. It is still there, too.

Thank you, gentlemen. Thank you, gentlemen.

Senator BUMPERS. Thank you, Mr. Chairman.

[Mr. Bergland's prepared statement follows:]

STATEMENT OF BOB BERGLAND

My name is Bob Bergland. I am Executive Vice President of the National Rural Electric Cooperative Association, a service organization comprised of nearly 1,000 rural electric systems in 46 states.

At our 43rd Annual Meeting earlier this year, the membership of NRECA adopted a number of resolutions in strong support of continued federal commitment to the electrification of rural America. I have attached a copy of those resolutions to my statement, and would ask that they be made a part of the record of this hearing.

Mr. Chairman, before I present NRECA's recommendations for the REA loan programs in fiscal 1986, I'd like to respond to several proposals regarding REA financing contained in the so-called "Deficit Reduction Agreement" announced April 4 by President Reagan and the Senate Leadership.

This agreement, if implemented as presented, would effect severe and drastic changes in the basic fabric of the REA financing program. It would more than double the interest rate on REA insured loans from the current fixed rate to one based on the market rate plus 1 and 1/8 percent, and it would gradually phase out REA loan programs over the next eight years."

The rationale for these devastating changes is built upon two assertions contained in the Senate-White House Agreement that are totally and flagrantly erroneous.

1) The agreement contends that "Today, residential customers in REA service areas enjoy electric rates that are 12 percent lower than residential rates in non-REA service areas." This erroneous statement is directly contradicted by REA's detailed and accurate analysis of rate comparability which concludes that almost three-fourths (72.3%) of all rural electric systems have rates higher than comparable utilities. REA's data also indicates a rapid deterioration in rate comparability of rural systems. Increasing the financing cost to rural electrics would only serve to accelerate this process, and spread even further the gap between rural and non-rural consumers' electric bills.

2) The Senate-White House Agreement further states that "Since Congress fixed interest rates at 5 percent on REA direct loans and established the REA loan guarantee program in [sic] 1972 approximately $41-billion in credit subsidies has gone to rural communities."

   By no reasonable definition can this $41 billion figure, which appears to represent the total amount of REA insured and guaranteed loan commitments since 1973, be labeled "credit subsidies," -- a term which clearly implies cost to the government. About four-fifths of these loan commitments have been made at the government's cost of funds plus one-eighth of one percent. Thus, the great bulk of REA financing is at market rates and involves no "credit subsidies."

Thus, the only stated justifications for eliminating REA -- contentions that rural utilities have lower rates and have already received $41 billion in credit subsidies -- can be seen as being totally misleading and without basis in fact.

We hope that the members of this Subcommittee, because of your special expertise in the operation of the REA lending programs and your knowledge of the benefits REA provides to rural America and the nation as a whole, will help to set the record straight on these key points when the Senate debates this "Deficit Reduction Agreement" in the days and weeks to come.

With that, Mr. Chairman, let me get back to the presentation of NRECA's specific recommendations for REA in fiscal 1986.

FISCAL 1986 LOAN LEVELS

As in previous years, NRECA has conducted a comprehensive survey to determine REA borrowers' estimated capital needs for the year beginning October 1, 1985. Based on that survey, we make the following recommendations for REA electric program lending in fiscal 1986:

	Minimum (Floor)	Maximum (Ceiling)
Insured Loans	$650-million	$850-million
Loan Guarantees	$850-million	$1,900-million

For insured loans, this represents a reduction of $200-million (24%) from the 1985 "floor" and $250-million from the 1985 "ceiling" These recommended levels are based on maintaining the same loan ratios as were used during fiscal 1984. For loan guarantees, our recommended levels are $350-million (29%) below the 1985 "floor" and $300-million under the 1985 "ceiling." These would be the lowest levels in the history of the guarantee program.

We recommend also that Congress reject the Administration's proposed rescission of $216-million in fiscal 1985 appropriations for the Rural Electric and Telephone Revolving Fund. We urge -- and have based our recommendations upon -- maintenence of the current ratios and criteria applied to supplemental loan requirements for insured lending, and strongly oppose any plan to arbitrarily limit the application of the REA guarantee to some fraction of the borrower's capital needs.

We fully recognize, Mr. Chairman, that the amounts we are recommending for Fiscal 1986 REA lending are substantially lower than those which NRECA called for -- and which Congress approved -- for the current year. There are those who undoubtedly will cite this decline in loan demand as evidence that the job of REA is done, and that the agency and its lending programs are no longer needed. This is by no means the case.

LOAN DEMAND IS DOWN

Our systematic survey of borrowers and my own personal contacts with co-op managers and directors in many states over the past few months clearly indicate that the current slump in loan demand is transitory and could reverse itself at any time. There are strong signs also that the drop-off in loan demand is due in large measure to the Administration's own actions over the past few years.

One key factor, of course, is the depressed state of the rural economy. The fact that much of rural America has been excluded from the economic recovery of the past few years has had a significant dampening effect on the rural electrics' need for capital. Generally depressed conditions combined with continued high mortgage interest rates have reduced the housing construction in many rural areas to near zero.

While on the subject of housing, Mr. Chairman, let me take a moment to emphasize our serious concern regarding Administration proposals that would virtually eliminate federal assistance for rural housing programs. These programs have been instrumental in stabilizing our rural population, and have provided economic value many times their cost to the government. For the past five years, however, rural housing programs have been either frozen or cut, denying millions of rural Americans the opportunity to obtain decent housing. Given the precarious condition of some rural financial institutions and the credit crisis throughout rural America, we strongly believe rural housing programs administered by the Farmers Home Administration are more important now than ever, and should be restored to levels commensurate with need.

It's clear that any upsurge in rural housing and farm income improvement will result in a substantial increase in the rural electrics' capital needs.

Another reason we've identified for the fall-off in REA loan demand, Mr. Chairman, is the fact that many systems have been financing a significant portion of their construction and capital improvements using internally generated funds, rather than borrowed capital. In some cases they have been able to do this because anticipated increases in power costs have not occurred due to the slackening of inflation and stabilization of fuel costs over the past few years. In addition, encouragement from REA to build equity and pressure from other lenders to maintain a times-interest earnings ratio (TIER) of at least 2.5 have led some co-ops to have operating margins above historic levels. These higher margins contribute to the co-op's supply of internally generated funds and reduce the need for new borrowing.

CO-OPS ADOPT DEFENSIVE POSTURE

In the past when margins have been higher than planned or needed they typically have been returned to the co-op's members, either through payment of capital credits or through lower rates. At present, however, many co-ops are holding onto these funds -- and are doing so largely, we believe, because of their concern about the future of the REA program.

It's not surprising that co-ops should feel the need to accumulate some capital if they can.

The President's budget submitted earlier this year clearly states the Administration's desire to shut down the REA lending program within the next five years, and exclude some systems from REA borrowing long before then.

REA officials have initiated discussions with non-governmental entities regarding a plan to transfer the Rural Electric and Telephone Revolving Fund as part of a program to "privatize" the lending program.

Widely circulated (albeit not yet officially published) regulatory proposals from REA would place hundreds of co-op borrowers between the proverbial rock and hard place. These new limits on co-op working capital would punish those systems that have followed REA advice by building equity and maintaining TIER. If these regulations are put into effect, as many as 700 current borrowers will face an extremely unfair and unnecessary dilemma. They can choose to preserve a prudent financial cushion in view of an uncertain future and in so doing lose their access to both new REA loans and advances of funds already committed in previously approved loans, or they can reduce working capital and risk disaster if the Administration somehow succeeds in its plan to eliminate REA.

CONGRESSIONAL COMMITMENT NEEDED

Mr. Chairman, we know that the ultimate goal of the Administration -- the elimination of REA lending programs and extinction of REA as an independant agency -- can not be accomplished unless Congress agrees to it. We are confident that a substantial majority of both the House and Senate have sufficient awareness and appreciation for the importance of a strong rural electrification program that they would not make drastic changes in the legislative basis of the program without due consideration of all factors.

We know also however, that unless Congress intervenes, appointees of this Administration can -- and almost certainly will -- do everything in their power to reduce and weaken REA to the point that it would survive in name only.

We've already seen their plans to deny access to a large number of borrowers through rule and to "privatize" REA through transfer of its assets and lending programs to a non-governmental entity. Even if these frontal assaults can be repeled, however, we fear continued efforts will be made to erode the agency from within.

Proposals already have been made, for example, to eliminate key administrative and service functions from the agency, including the very important engineering standards division. It is because of REA's early insistence upon sound and consistent engineering that rural electrics have been the envy of the utility industry insofar as system reliability and the ability to respond to disaster and emergency situations are concerned. As primary lender to the distribution systems, REA has a unique ability to perform this key function, and currently does so at a cost of less than $1-million per year.

We strongly believe that the increased quality and reliability of service REA's engineering standards accrues to the 25-million people who depend on rural electric systems are worth many times its small cost to the government. Nevertheless, officials at USDA and elsewhere remain determined that this function be eliminated, with no regard to any honest cost-benefit evaluation.

Mr. Chairman, fifty years ago next month, the government of the United States entered into a partnership with the people of rural America -- a partnership created to bring the rural areas of our nation out of the darkness, and make it possible for all of our citizens -- rural and urban alike -- to enjoy the benefits of adequate, reliable electric service at rates the average person could afford to pay.

The nature of that partnership has changed over the years. As the rural electric systems have become stronger, they have assumed an ever greater share of the burden and responsibility for themselves. And we expect to continue that trend.

This is a very critical time for the rural electrification program. Rural co-ops, like other types of utilities, will face tremendous challenges in the balance of this century and beyond. We're ready to do all we can to meet those challenges -- but we strongly believe that the original partnership of government and people must be maintained.

Co-ops need to have their confidence renewed that REA will continue to exist as a viable agency. They need a clear sign from the Congress that government is not about to abandon the enormously successful fifty year partnership it has had with the rural electrification program. We ask, Mr. Chairman, that this subcommittee begin now to give us such a sign by:

- Authorizing adequate levels for the REA insured and guaranteed loan programs in Fiscal 1986;
- Rejecting the proposed rescission of F.Y. 1985 appropriated funds;
- Making it clear that Congress will not tolerate any effort to subvert the intent of the Rural Electrification Act through rulemaking and administrative fiat.
- Insuring that REA has the personnel and administrative resources to meet its responsibilities, including retention of the engineering standards function.

Thank you again, Mr. Chairman, for this opportunity to present NRECA's views. I will be glad to respond to any questions you may have now, or at any future time.

SELECTED RESOLUTIONS ADOPTED OR REAFFIRMED
at the
43rd ANNUAL MEETING
of the
NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

FINANCING

Rural electric cooperatives can meet their responsibilities only if they are able to obtain an adequate volume of capital. Their consumer members, in turn, must have fully adequate electric service in order to produce the food and other essentials for a growing nation and its vital foreign trade. Such production combats inflation and contributes toward national self-sufficiency in the supply of energy, which is essential to full employment, national security and many other aspects of the general welfare.

We commend the Congress for treating the REA Revolving Fund similar to other USDA revolving funds by providing an appropriation in the amount of $216 million. We urge REA to utilize these funds to offset borrowing.

Data provided by NRECA Loan Fund Survey indicated that the insured loan demand for fiscal 1986 will exceed $650 million. An authorization for fiscal year 1986 of REA insured funds of not less than $650 million nor more than $850 million reflects minimum required levels and is entirely consistent with the national objective of controlling inflation and exercising fiscal restraint and responsibility.

We urge the Administration to utilize the full amount of loan authority provided by the Congress and approve loans consistent with the ceiling level. We urge maintenance of the current ratios between REA and concurrent loans. We oppose any effort to deny G&T systems their legal eligibility for insured loans.

GUARANTEED LOAN PROGRAM

REA loan guarantees are absolutely essential for rural electric power supply financing. The REA loan guarantees are uniquely advantageous in providing financing for essential power supply facilities for rural consumers without incurring any costs whatsoever to the government.

Due to the significant uncertainty regarding the timing of power supply project financing, it is extremely difficult to project a precise level of required funding. We urge the Congress to legislatively ensure that adequate financing will be made available for power supply facilities in fiscal 1986 to the extent that needs are documented in applications for both new starts and deficiencies consistent with the intent of Congress. We further urge that REA process these applications on a timely basis in fiscal 1986.

We urge REA to make loan guarantees in the full amount of the project and not reduce it by any particular basis or arbitrary percentage.

REA SUPPLEMENTAL LOAN REQUIREMENTS

REA has published a notice of its intent to revise certain aspects of the supplemental loan requirements which have been part of its insured program since 1973. While specific changes have not yet been proposed, it appears likely that an effort will be made to increase the percentage of non-REA funds some borrowers will be required to utilize, and/or to substantially revise the criteria used to determine the supplemental ratio to be applied to each borrower.

We believe further that the existing criteria for establishing supplemental loan requirements, which are based on the borrower's Plant Revenue Ratio (PRR), has worked well and equitably over the years, and that no workable alternative has yet been developed which would be superior to the PRR approach. Special consideration should be provided to systems serving fewer than two consumers per mile of line. For these reasons, we strongly oppose any change in the supplemental loan ratios which would require any REA borrower to obtain more than the present maximum of 30% of their loan funds from non-REA sources. We call attention to the act that an increase in these ratios would accomplish nothing more than to increase financing costs for individual borrowers - an increase that is especially untimely since most cooperatives' rates already are substantially higher than those of neighboring non-REA financed utilities.

We further believe that the present PRR-based criteria for supplemental loan requirements should be retained as presently established.

Finally, we urge in the strongest possible terms that REA be allowed to make full use of the loan amounts authorized by the Congress in this and in subsequent fiscal years.

GENERAL FUND POLICY VERSUS PROPOSED REA WORKING CAPITAL REGULATION

In the Fall of 1983, REA announced its intention to modify its policy covering general fund levels as they related to loan applications and to loan fund requisitions. REA invited comments regarding such revision. NRECA, after considerable study and input from its membership, recommended certain revisions to the REA General Funds Policy.

In lieu of accepting NRECA recommended revisions, REA now proposes a regulation that would substantially change circumstances under which electric cooperatives would have access to REA loan funds. Under this proposal, general funds level would no longer serve as the criterion. Instead, a measure of "adjusted working capital" as a percent of total utility plant would provide the basis for approval of loans and for the draw of approved loan funds.

Preliminary evaluation of this proposed concept indicates that it may not be responsive to the needs of rural electric cooperatives, and that it, in effect, may make ineligible a substantial majority of cooperatives from submitting loan applications or drawing approved loan funds.

We believe additional time is necessary for complete evaluation of the REA proposal. At the present time, we reaffirm our belief that an appropriate general funds rule would provide for requisition of loan funds up to 8% of utility plant plus one month's power bill and that no general funds restriction be placed upon the loan approval process.

CONTINUED FEDERAL APPROPRIATIONS TO THE RURAL ELECTRIC AND TELEPHONE REVOLVING FUND

Rural electric cooperative leaders proposed federal legislation in the spring of 1983 which would have provided for the future stability of the financing programs of the Rural Electrification Administration.

This legislation offered a responsible solution to the problems faced by the REA financing programs, especially the Rural Electrification and Telephone Revolving Fund, and offered an opportunity to solve these problems in a calm, thoughtful environment and without significant cost to the federal government.

Although this legislation received overwhelming Congressional support from both political parties and was approved by the U.S. House of Representatives by a vote of 283 to 111, it was opposed by the current national Administration and was blocked by the Republican leadership of the U.S. Senate.

As a result of the failure to enact the proposed legislation, Congress again approved proposed appropriations to the Revolving Fund in order to maintain its stability.

We support continued efforts to find a permanent solution to the problems facing the REA financing programs.

Until such a time as a permanent solution to the problems facing the REA financing programs is found, we support continued appropriations to maintain the stability of the Revolving Fund.

We commend the Chairmen and the members of the Appropriations Committees for their efforts to maintain a viable Revolving Fund and for their continuing support of cooperative rural electrification.

LIEN ACCOMMODATION

In order to obtain capital at reasonable rates, it is necessary that REA agree to provide lenders with an accommodation (sharing) of its lien on the property of the borrower.

REA's present policies and practices governing the granting of lien accommodations are overly-restrictive. As presently interpreted, these policies make it difficult for a private lender to obtain an acceptable lien accommodation to secure its loan. Further, REA procedures for processing requests for such lien accommodations are extremely time-consuming and cumbersome and should be improved.

We support legislation to require the REA Administrator to revise REA policies to enable private lenders to obtain marketable security interests for their loans by providing adequate lien accommodations.

FmHA RURAL HOUSING

In its budget recommendations to the Office of Management and Budget for fiscal 1984 through 1988, Farmers Home Administration would transfer a major portion of its rural housing assistance to the states in the form of block grants. Moreover, FmHA recommends drastic reductions in its overall funding for housing. Should FmHA's budget requests be approved, its housing program would be virtually phased out over the next five years. As a result, thousands of residents living in areas served by rural electric systems would, in effect, be denied the opportunity to obtain decent housing.

Since the early 1960s, rural electrics have vigorously supported FmHA's housing and through their national association have assisted importantly in broadening the agency's legislative authorities to increase the benefits of the program. During the past year, NRECA joined with other farm and rural-oriented organizations to successfully oppose legislation designed to implement the block grant approach.

We urge Congress to reject the Administration's efforts to turn the FmHA housing into a block grant program. Also, we urge Congress to provide adequate funding for rural housing next year at approximately this year's level.

NEW APPROACHES NEEDED

The present FmHA Administrator is seeking to de-emphasize and phase out rural development for which his department has the major responsibility delegated to it by the Secretary of Agriculture.

In testimony before Congressional committees and in the press, he has stated that he favor terminating FmHA's business and including development loan program and greatly reducing its programs for water and sewer, community facilities and housing.

It is apparent that FmHA is unenthusiastic about implementing the rural development authorities assigned to it over the years. As a consequence, it is increasingly difficult for rural areas and rural people to obtain the assistance which Congress and/or the Administration to transfer the rural development programs from FmHA to a Rural Development Administration in USDA, leaving FmHA solely a farm loan agency, which it obviously prefers to be.

In addition to restructuring FmHA, new approaches to rural development need to be developed in light of the decrease of the Federal Government's role. These should include more active roles for state and local governments and for local organizations such as rural electric cooperatives.

In regard to financing, there also need to be new approaches which eventually will be independent of the federal government similar to the successful farm credit system. This is the direction the REA program has been following during the last decade, so that today most of its financing comes from non-government sources.

The establishment of a rural development financing institution is now gaining interest in Congress. We urge that Congress consider the feasibility of this and other proposals to supplement or replace federal financing that is being sharply reduced or phased out, particularly for funding of job-creating enterprises and infrastructure.

Cooperative League of the United States

STATEMENT OF STEWART A. KOHL, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

Senator Andrews. Next is Steward A. Kohl, executive vice president and chief operating officer, Cooperative League of the United States. Let me assure you your complete statement will be included in the record. You can summarize any way you wish.

Mr. Kohl. With that assurance, I will be brief and summarize my remarks.

Mr. Chairman, members of the committee, I am Stewart Kohl, the executive vice president of the Cooperative League of the United States. The Cooperative League is a trade association representing the business community. We serve as a chamber of commerce-type organization in that our membership includes rural electric and telephone, housing, health care, students, home mortgages, telephone, and other types of cooperatives.

Today I am here to testify on three matters of concern to our membership. The first you just heard about is the rural electrification program. The second is the future of the Agricultural Cooperative Service and the third concerns Public Law 480.

In regard to the rural electrification program, I will be particularly brief because former Secretary of Agriculture Bergland has been so articulate in defense of the program and the need for it.

In the late 1930's, a partnership was forged between the Government—through REA—and America's rural electric cooperatives. These cooperatives are efficient providers of rural electric service to their rural members. Today, the proposal the administration has made threatens to destroy that partnership by first limiting and ultimately phasing out REA.

We support NRECA's very responsible presentation for ceilings on insured loans, and we note that they are already quite reasonable and limited and urge the committee to consider and support this.

We also support NRECA's recommendation with regard to retaining the REA Engineering Standards Division, which is slated for elimination under the proposal. You also heard testimony regarding the telephone service, and the Cooperative League does support the National Telephone Cooperative Association's recommendation for REA telephone loans and loaning those at the levels authorized for last year.

The second program I would like to address is that of the Agricultural Cooperative Service. This agency of USDA provides services not provided by any national, State, or regional cooperative association. Many people do not realize that most of America's cooperatives are very small businesses with extremely limited professional staffs. The Agricultural Cooperative Service provides invaluable assistance to groups starting new cooperatives, as well as to existing cooperatives, particularly in research areas, technical areas, and matters of tax, legal, accountancy, ownership, et cetera.

No organization stands ready to provide the services that the Agricultural Cooperative Service currently provides. We urge the committee members to restore and maintain funding for the Agricultural Cooperative Service above the fiscal year 1985 level of $4.6 million and allow the staff ceiling to return to the fiscal year 1982 level of 80 persons.

Finally, I will speak briefly about Public Law 480. The Cooperative League has three recommendations in this area which we label the 3-M's. They all start with the letter M, but we like to say that they stand for the three musts. The first of these concerns: minimum tonnage. In Public Law 480, title II, the minimum tonnage is 1.70 million tons per year. Of this amount, 500,000 tons are reserved for emergency programs and 1.2 million tons is legalized for activities such as cooperative development, school feeding programs, mother-child health centers, and food for work programs. This program reaches over 40 million people daily in over 25 countries.

As you are aware, title II levels have been straightlined for the past several years. Each year we have had to come back to you for supplemental appropriations. Congress has been generous in providing us with emergency supplementals, but the process for gaining supplementals is time-consuming and the delay results in much less effective management of resources.

I think you must face up to the hard fact, which is that the straightlining of the Public Law 480 programs is not enough. We would recommend an increase of no less than 250,000 metric tons annually.

The next M in our three M's is all multiyear. All programs should be planned and committed on a multiyear basis. This is already being done for the World Food Program and the Government programs, such as section 206. All commitments would, of course, be subject to congressional appropriations and to commodity availability.

The annual approval system, which is currently in force, costs the U.S. Government and its staff time and excessive paperwork. It is also very difficult to leverage host government and local agency funds, because program sponsors can only make a 1-year commitment. What business could hire staff, build warehouses, make financial commitments, et cetera, against a 1-year contract?

The third and final item that we urge you to support consists of modernizing food aid. The process of modernizing means making donated food available for financing by allowing a portion to be sold to finance transport and storage costs or to sell or utilize the commodity in a food production project, such as dairy development projects or loans to small farmers.

This use of title II is not new. It has been done since the inception of the program. For example, emergency situations sometimes require that food be sold through the commercial marketing system just to get the food to affected victims. This is usually the case where there are no other means to get the food to the affected people and has been done this year several times in Africa.

In some countries, the country doesn't have adequate funds to transport the food to people in need. A portion of the food is then sold to finance the transport.

Another form of title II sales is to sell a portion of the food to finance tools, shovels, or other implements for work programs, or to buy health charts and scales for mother-child nutrition programs.

The third form of sales, and one particularly important from our perspective, is to finance agricultural projects such as cooperative or small farmer loans. This is a way to help people learn to produce food and, in a sense, it follows the old story of teaching a man to fish rather than giving him a fish.

Some people are concerned that less food will get to people if these sales are allowed. If sales are not allowed, some food won't be delivered at all. In other situations, the food will produce capital to produce more food for the poorest recipients. We are not recommending a shifting away from direct distribution programs but the addition of a way to make programs more effective.

On behalf of the Cooperative League and its members, I appreciate the opportunity to appear before you to address these three critical issues, and I will be happy to answer questions at this time or in the future.

Senator ANDREWS. Thank you very much, Mr. Kohl, for an excellent and most helpful statement.

I have long felt that food can win a lot more friends for our country than bayonets and bullets. Those of us on the agriculture legislative committee face quite a challenge. The only way we can meet it is to talk about the agricultural advantage instead of always bemoaning the farm problem, and we really do have an agricultural advantage. The Soviets can do a lot of things. They can blow the world up 10 times over, but they can't produce food, and we can, and that is pretty basic to civilization. You say it so well.

You also bring us some common sense to a problem affecting the rural electric co-ops; the Rural Electrification Administration is now doing away with the Standards Division. That just doesn't make any sense at all. That is the division which for years has enabled co-ops to construct reliable, cost-efficient electric plants that better serve its member owners, and with all of the horror stories about nuclear generation and all of the rest, we have had dependability in plants built by the rural electric system because of this Engineering Standards Division. I can't imagine why the administration wants to cut that out, but I appreciate your bringing it to our attention and pointing out, from your position in the Cooperative League of the United States, that it just doesn't make much sense. Thanks for that, as well.

Senator Burdick.

Senator BURDICK. I just have one question.

Mr. KOHL. Yes, sir.

Senator Burdick. Have you ever figured out how many bushels of wheat you could sell under Public Law 480 for one MX missile? [Laughter.]

Senator BURDICK. If you can figure it out, please supply it for the record.

Mr. KOHL. We will be happy to supply the information to you. You draw the analogy, and of course, the chairman and yourself and Senator Bumpers mentioned national security. If we are redrafted in the national security, I would urge you to add food aid to be one among the critical components of that. Nothing so weakens and inspires enemies as hungry children, hungry people.

Senator ANDREWS. That is one of the many great tragedies of Vietnam. Public Law 480, or Food for Peace, began under the Eisenhower administration in the fifties. The Alliance for Progress began in the Kennedy administration in the sixties. The two of them were uniquely qualified to work together, our people and our food, to help other unfortunate countries build their infrastructure. We were doing it, and doing it successfully, and then all eyes turned in the midsixties to Vietnam and we forgot about how we could help strengthen other countries. Now we are faced with a problem in Central America. So you touched on that today, and we appreciate your statement.

[Mr. Kohl's prepared statement follows:]

STATEMENT OF STEWART A. KOHL

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, IT IS A PLEASURE TO APPEAR BEFORE YOU TO DISCUSS PROGRAMS OF CONCERN TO THE MEMBERS OF THE COOPERATIVE LEAGUE.

FOUNDED IN 1916, THE COOPERATIVE LEAGUE OF THE USA IS A NATIONAL MEMBERSHIP AND TRADE ASSOCIATION REPRESENTING AMERICA'S COOPERATIVE BUSINESS COMMUNITY. THE LEAGUE SERVES AS A CHAMBER OF COMMERCE FOR COOPERATIVE BUSINESSES, REPRESENTING THE UNIQUE AND MUTUAL NEEDS OF THE VARIOUS INDUSTRIES. THE LEAGUE'S MEMBERSHIP INCLUDES FARM SUPPLY, AGRICULTURAL MARKETING, INSURANCE, BANKING, HOUSING, HEALTH CARE, CONSUMER GOODS AND SERVICES, STUDENT, CREDIT UNIONS, WORKER, FISHERY, RURAL ELECTRIC, TELEPHONE, STATE ASSOCIATIONS AND OTHER COOPERATIVES.

TODAY, I AM HERE TO TESTIFY ON BEHALF OF THE RURAL ELECTRIFICATION PROGRAM, AGRICULTURAL COOPERATIVE SERVICE AND PUBLIC LAW 480.

THE RURAL ELECTRIFICATION ADMINISTRATION, FOUNDED IN THE LATE 1930'S WAS CREATED FOR TWO PURPOSES: TO PROVIDE THE UNEMPLOYED WITH WORK AND TO ELECTRIFY RURAL AMERICA. IT QUICKLY BECAME APPARENT THAT ELECTRIFYING RURAL AMERICA WAS REA'S PRINCIPAL TASK, PARTICULARLY SINCE INVESTOR-OWNED UTILITIES IN HIGHLY-POPULATED AREAS WOULD NOT EXTEND LINES TO THE COUNTRY. THE UTILITIES FOUND THAT COST OF RURAL ELECTRIFICATION AND SUBSEQUENT MAINTENANCE WAS SIMPLY NOT PROFITABLE ENOUGH FOR THEIR PARTICIPATION.

THIS DID NOT STOP THE RESIDENTS OF DENSELY-POPULATED AREAS. BY COMING TOGETHER AND FORMING COOPERATIVES, EFFICIENT ORGANIZATIONS WERE CREATED TO ASSIST REA IN THE ELECTRIFICATION PROCESS. THUS A PARTNERSHIP WAS FORMED TO DO WHAT THE INVESTOR-OWNED UTILITIES COULD NOT DO -- TO BRING ELECTRICITY TO SMALL TOWNS AND FARMS THROUGHOUT AMERICA.

BUT NOW, THE ADMINISTRATION SEEKS TO DESTROY THAT PARTNERSHIP BY PHASING OUR REA. THE COOPERATIVE LEAGUE SUPPORTS THE NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION'S RECOMMENDATIONS OF A FLOOR OF $650 MILLION DOLLARS TO AN $850 MILLION DOLLAR CEILING FOR INSURED LOANS IN FY'86 AND LOAN GUARANTEES OF $850 MILLION DOLLARS TO A CEILING OF $1.9

BILLION. THIS IS A REDUCTION OF APPROXIMATELY 24% FROM 1984 LEVELS FOR INSURED ELECTRIC LOANS AND A 29% REDUCTION IN THE FLOOR AND 14% DECLINE IN THE 1985 CEILING FOR LOAN GUARANTEE COMMITMENTS.

REA IS NEEDED NOW MORE THAN EVER. AS THE COST OF ENERGY AND LINE MAINTENANCE INCREASES, RURAL ELECTRIC COOPERATIVES MUST CHARGE HIGHER RATES. AND THE COOPERATIVE MEMBER WHO MUST PAY THESE RATES MAKES ON THE AVERAGE SOME 25% LESS THAN DOES HIS METROPOLITAN COUNTERPARTS.

IN ADDITION, WE SUPPORT THE RETENTION OF THE REA ENGINEERING STANDARDS DIVISION ALSO SLATED FOR ELIMINATION. THIS DIVISION ALLOWS COOPERATIVES TO CONTINUE CONSTRUCTION OF RELIABLE COST-EFFICIENT ELECTRIC PLANTS THAT BETTER SERVE ITS MEMBER-OWNERS. THE COOPERATIVE LEAGUE'S MEMBERS ALSO SUPPORT THE NATIONAL TELEPHONE COOPERATIVE ASSOCIATIONS' RECOMMENDATIONS FOR REA TELEPHONE LOANS IN FY'86 AT LEVELS AUTHORIZED FOR LAST YEAR:

REA INSURED LOANS	\$250-\$325 MILLION DOLLARS
RURAL TELEPHONE BANKS LOANS	\$185-\$220 MILLION DOLLARS
REA LOAN GUARANTEES	\$125-\$145 MILLION DOLLARS

THESE FUNDING LEVELS WILL CONTINUE TO ENSURE RURAL AMERICA WILL HAVE ACCESS TO THE REST OF THE WORLD VIA TELEPHONES.

THE SECOND PROGRAM I WILL ADDRESS IS THE AGRICULTURAL COOPERATIVE SERVICE. THIS DEPARTMENT OF USDA PROVIDES SERVICES NOT PROVIDED BY ANY NATIONAL, STATE OR REGIONAL COOPERATIVE ORGANIZATION. ACS PROVIDES RESEARCH AND TECHNICAL ASSISTANCE TO FARMER COOPERATIVES. ACS SERVES AS A REFERENCE POINT FOR AGRICULTURAL COOPERATIVES AND COOPERATIVE ORGANIZATIONS. BESIDES PROVIDING ~~INFORMATI~~VE PUBLICATIONS ON A HOST OF TOPICS OF IMPORTANCE TO AGRICULTURAL COOPERATIVES, ACS ALSO CONDUCTS FINANCIAL PROFILES OF COOPERATIVES, FINANCIAL PERFORMANCE REVIEWS, STUDIES OF COOPERATIVE EXPORT OPPORTUNITIES, STATISTICS ON FARMER COOPERATIVE MEMBERSHIPS, AND THE USE OF MARKETING AND FARM SUPPLY COOPERATIVES.

AGRICULTURAL COOPERATIVES ARE A UNIQUE FORM OF BUSINESS, AND HAVE DISTINCT RESEARCH AND TECHNICAL NEEDS THAT REQUIRE SPECIALIZED KNOWLEDGE IN THE AREAS OF TAX, LEGAL, ACCOUNTING, OWNERSHIP AND PURPOSE.

OVER 70% OF AGRICULTURAL COOPERATIVES HAVE LESS THAN A $25 MILLION DOLLAR VOLUME AND EMPLOY FEW STAFF PERSONNEL. AGRICULTURAL COOPERATIVE SERVICE IS AN EFFICIENT CENTRALIZED POINT OF REFERENCE FOR THESE SMALLER COOPERATIVES WITH TAX, LEGAL OR OTHER TECHNICAL PROBLEMS. LANDGRANT UNIVERSITIES CONDUCT PROJECTS FOR COOPERATIVES, BUT OVER 40% OF THESE PROJECTS ARE SUPPORTED BY ACS. THE RESEARCH CONDUCTED BY AGRICULTURAL COOPERATIVE SERVICE HAS POTENTIAL APPLICATIONS TO OTHER AGRI-BUSINESSES AND THE GENERAL PUBLIC.

AT LEAST ONCE A DAY, I RECEIVE A CALL ASKING THE LEAGUE TO PROVIDE TECHNICAL ASSISTANCE. WE DO NOT NEED TO REINVENT THE WHEEL. THE AGRICULTURAL COOPERATIVE SERVICE HAS PROVIDED SUCH ASSISTANCE AND IS STAFFED TO CONDUCT SUCH WORK, THE COOPERATIVE LEAGUE IS NOT.

WE URGE THE COMMITTEE MEMBERS TO RESTORE AND MAINTAIN FUNDING TO THE AGRICULTURAL COOPERATIVE SERVICE ABOVE THE FY'85 LEVEL OF $4.6 MILLION DOLLARS AND ALLOW THE STAFF CEILING TO RETURN TO THE FY'82 LEVEL OF 80 PERSONS.

LASTLY, I WILL TALK ABOUT PUBLIC LAW 480. I HAVE THREE RECOMMENDATIONS -- THEY HAVE BEEN CALLED THE 3 m's WHICH STANDS FOR **3 MUSTS!** FIRST IS MINIMUM TONNAGE. THE P.L. 480 TITLE II MINIMUM TONNAGE IS PRESENTLY 1.7 MILLION TONS A YEAR. OF THIS AMOUNT, 500,000 TONS IS RESERVED FOR EMERGENCY PROGRAMS AND 1.2 MILLION TONS IS UTILIZED FOR ACTIVITIES SUCH AS COOPERATIVE DEVELOPMENT, FOOD FOR WORK PROGRAMS, MOTHER-CHILD HEALTH CENTERS, AND SCHOOL FEEDING PROGRAMS. THIS DONATED FOOD AID REACHES OVER 40 MILLION PEOPLE DAILY IN OVER 25 COUNTRIES.

TITLE II LEVELS HAVE BEEN STRAIGHTENED FOR SEVERAL YEARS AND EACH YEAR THERE HAS BEEN A NEED FOR SUPPLEMENTALS. ISN'T IT TIME TO TAKE A LOOK AT LEVELS? THE CONGRESS HAS BEEN GENEROUS WITH EMERGENCY SUPPLEMENTALS, BUT SUPPLEMENTALS ARE TIME CONSUMING AND RESULT IN DELAY AND LESS EFFECTIVE MANAGEMENT OF RESOURCES. THE HARD FACT IS THAT STRAIGHTLINING OF P.L. 480 TITLE II PROGRAMS IS NOT ENOUGH! WE RECOMMEND AS INCREASE OF NO LESS THAN 250,000 MT ANNUALLY.

OTHER CHANGES IN THE LEGISLATION CAN PRODUCE MORE COST EFFECTIVE USE

OF RESOURCES. ALL TITLE II PROGRAMS SHOULD BE PLANNED AND COMMITTED ON A MULTI-YEAR BASIS. THIS IS ALREADY BEING DONE FOR WORLD FOOD PROGRAM PROJECTS AND GOVERNMENT TO GOVERNMENT PROGRAMS SUCH AS SECTION 206. THERE ARE EVEN A FEW MULTI-YEAR COOPERATIVE VOLUNTARY AGENCY PROGRAMS. ALL NON-EMERGENCY PROGRAMS SHOULD BE DESIGNED AND COMMITTED ON A MULTI-YEAR BASIS. ALL COMMITMENTS WOULD BE SUBJECT TO CONGRESSIONAL APPROPRIATIONS AND COMMODITY AVAILABILITY. THE ANNUAL APPROVAL SYSTEM OF COSTS THE U.S. GOVERNMENT IN STAFF TIME AND EXCESSIVE PAPER WORK. IT IS ALSO VERY DIFFICULT TO LEVERAGE HOST GOVERNMENT AND LOCAL AGENCIES FOR FUNDS IF A PROGRAM SPONSOR SUCH AS THE COOPERATIVE LEAGUE, CARE, CATHOLIC RELIEF SERVICES, ADVENTIST DEVELOPMENT AND RELIEF AGENCY OR WORLD VISION CAN OFFER A ONE YEAR COMMITMENT. WHAT BUSINESS WOULD HIRE STAFF, BUILD WAREHOUSES, MAKE FINANCIAL COMMITMENTS AGAINST A ONE YEAR CONTRACT?

ANOTHER WAY TO MORE EFFECTIVELY UTILIZE DONATED FOOD AID IS TO USE THE FOOD AS A CASH RESOURCE TO COMPLEMENT DISTRIBUTION OR TO PRODUCE MORE FOOD. FOR LACK IF A BETTER PHRASE WE REFER TO MONETIZING FOOD AID. THIS IS THE THIRD MUST. THIS MEANS MAKING DONATED FOOD AID SELF-FINANCING BY ALLOWING 1.) A PORTION TO BE SOLD TO FINANCE TRANSPORT AND STORAGE COSTS OR 2.) TO SELL OR UTILIZE THE COMMODITY IN A FOOD PRODUCTION PROJECT SUCH AS DAIRY DEVELOPMENT PROJECTS AND LOANS TO SMALL FARMERS.

THIS USE OF TITLE II IS NOT NEW. IT HAS BEEN DONE SINCE THE INCEPTION OF THE PROGRAM. FOR EXAMPLE, EMERGENCY SITUATIONS SOMETIMES REQUIRE THAT FOOD BE SOLD THROUGH THE COMMERCIAL MARKETING SYSTEM TO GET THE FOOD TO THE AFFECTED VICTIMS. THIS IS USUALLY THE CASE WHERE THERE ARE NO OTHER MEANS TO GET THE FOOD TO THE PEOPLE AFFECTED. THIS WAS DONE IN SEVERAL AFRICAN COUNTRIES THIS YEAR.

IN SOME COUNTRIES, NEITHER THE GOVERNMENT NOR THE PRIVATE SPONSOR HAVE ADEQUATE FUNDS TO TRANSPORT FOOD TO THE PEOPLE IN NEED. A PORTION OF THE FOOD IS THEN SOLD TO FINANCE TRANSPORT.

ANOTHER FORM OF TITLE II SALES IS TO SELL A PORTION OF THE FOOD TO FINANCE TOOLS, SHOVELS OR OTHER IMPLEMENTS FOR WORK PROGRAMS OR TO BUY HEALTH CHARTS AND SCALES FOR MOTHER-CHILD NUTRITION PROGRAMS.

THE THIRD FORM OF SALES IS TO FINANCE AGRICULTURE PROJECTS SUCH AS COOPERATIVES OR SMALL FARMERS LOANS. THIS IS A WAY TO HELP PEOPLE TO HELP THEMSELVES BY USING THE FOOD AS A RESOURCE TO PRODUCE MORE FOOD. A WISE PERSON ONCE SAID, THAT IF YOU CAN GIVE A MAN A FISH YOU FEED HIM FOR A DAY, BUT IF YOU TEACH HIM TO FISH YOU FEED HIM FOR LIFE. BY THE SAME TOKEN, WE CAN GIVE A CHILD A GLASS OF MILK BUT IF WE TEACH HER PARENTS TO PRODUCE MORE MILK WITH THEIR ONE COW AND SELL THE EXCESS MILK TO A COOPERATIVE DAIRY IN THEIR VILLAGE, THEN WE ARE PROVIDING MORE FOOD TO THAT CHILD OVER A LONGER PERIOD OF TIME AND ALLOWING THE FARMER TO SHAPE HIS FUTURE.

SOME HAVE BEEN CONCERNED THAT LESS FOOD WILL GET TO PEOPLE IF SALES ARE ALLOWED. IF SALES ARE NOT ALLOWED, SOME FOOD WON'T BE DELIVERED AT ALL! IN OTHER SITUATIONS, THE FOOD WILL PROVIDE THE SEED CAPITAL TO PRODUCE MORE FOOD FOR THE POOREST RECIPIENTS. WE ARE NOT RECOMMENDING A SHIFT AWAY FROM DIRECT DISTRIBUTION PROGRAMS, BUT THE ADDITION OF A WAY TO MAKE PROGRAMS MORE EFFECTIVE.

ON BEHALF OF THE COOPERATIVE LEAGUE AND ITS MEMBERS, I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TO ADDRESS THE FUNDING OF SEVERAL PROGRAMS THAT ARE VITAL TO COOPERATIVES. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE REGARDING MY TESTIMONY.

THANK YOU.

American Farm Bureau Federation

STATEMENT OF MS. GRACE ELLEN RICE, DIRECTOR, NATIONAL AFFAIRS DIVISION

Senator ANDREWS. Our next witness is Grace Ellen Rice, who is the director of the National Affairs Division of the American Farm Bureau Federation. Grace, good to see you here.

Ms. RICE. Thank you.

Senator ANDREWS. We appreciate your taking the time to testify before our subcommittee. Let me assure you, as we have the others, that your entire statement will appear in the record in full. You can summarize it any way you wish.

Ms. RICE. Thank you, Senator. I believe I will summarize.

This is the first time I have ever been the last person on the program, so it is good to have that distinction, and I will summarize our statement.

The Farm Bureau, for a number of years, particularly in the past 2 or 3 years, has always been keen about holding Federal spending down to a reasonable level. We come again to the committee with that overall viewpoint.

However, at time of excess commodity supplies, declining commodity prices and, certainly, soft domestic and export markets, we are very concerned that agriculture receive adequate USDA funding in 1986. Frankly, we look at the budget that was presented in February, and we see not a freeze, as the administration has indicated for most domestic spending, but we see an actual 15 percent decrease. Again, I would say that our statement is based upon the February figures which were presented to us.

There are several programs that I would like to highlight this afternoon for the subcommittee. First of all, under research and education, we know that basically, the formula funding for research and extension programs has been frozen, and we can live with that for a year. However, we would point out to the subcommittee that formula funds for animal health and disease research have been terminated, and that amounts to a cut of $5.8 million. We would urge the subcommittee to consider restoring that program level.

Under the commodity and international programs area, we are very concerned about exports. We view exports as the salvation for the American farmer at this point. If we can't move this and sell it to somebody, we will be in even more dire straits than we currently are. We believe that the administration, within the USDA budget, has to use every means that it possibly can, whether it is blended credit or an expanded Public Law 480 program.

I would also draw the subcommittee's attention to the problem that we are having with cargo preference. I know you are certainly aware of that. We believe, as farmers, that yes, certainly, we need a strong merchant marine, but we also believe that the ocean freight differential that goes to subsidize part of the maritime industry should rightfully come from the maritime budget, rather than coming through the USDA budget. So we would ask the subcommittee to bear that in mind as it makes it appropriations.

Soil and water conservation programs. We believe that this is not just a freeze, this is a significant cut. When the administration proposes a cut in funding and staffing from a 1985 level to 1987, and reduces it by two-thirds, that is not just a freeze, and we believe that that is an unreasonable cut at this time.

Within small community and rural development, we look at the Farmers Home Administration programs. We support both the guaranteed and direct loan programs. We are concerned that the administration is moving away from direct and would, in fact, propose to terminate the direct loan programs. We believe that there continues to be a place for direct loan programs.

Marketing and Inspection Services. We look at APHIS, and our primary area of emphasis for APHIS has been the brucellosis eradication program. We continue to view the goal of complete eradication as something we need to accomplish within the next few years. The eradication program bears a cut of around $14 to $15 million in the 1986 budget. We would urge the subcommittee to restore the funding level to at least the 1985 level and again, reemphasize such goals as cattle vaccination, calculated accelerated depopulation, and an adequate surveillance program.

I would mention quickly, too, the issue of user fees. In the past, the Farm Bureau has not had a position on user fees. However, in our annual meeting this January, our Bureau took the position which said, we will support user fees if the primary benefit accrues to the producer. I know there is some leeway and probably some subjective determinations as to what constitutes a benefit to the producer and a benefit to the consumer. I mention that policy in general as you look at meat inspection fees, which we do not support.

I would say that that is a summary of our statement. I would mention to the committee again that these figures and our statement is based upon the February budget. We have not taken a position yet on the Senate-White House budget compromise. Our leadership is currently looking at that, and I would hope within the next 24 hours, we will have some indications where we would be on that program.

Senator ANDREWS. Thank you very much, Ms. Rice, for an excellent statement.

You touched on the fact early on in your statement, in your summary, that the Farm Bureau would have no problem with a freeze, that the Farm Bureau supports a total freeze, but the administration is proposing significant cuts or the elimination of many Farm Bureau-supported programs. Soil Conservation Service, for example, has an 80-percent cut. That is in the budget package we have to look at. Senator Hollings and I cosponsored a freeze proposal, and it got out of the subcommittee, and we support that vote. We feel just precisely as you do: That everybody is willing to have their funding frozen, so long as everybody else freezes for the benefit of the entire country in getting these deficits under control.

Three out of every five bushels of grain have to be sold somewhere overseas, so the superheated dollars are simply killing us. Since agriculture has to borrow so much, the interest rates would be 3 percent lower. If the deficit could be brought under control, certainly that would benefit agriculture tremendously.

I appreciate your comment on that. Your feeling is that the American Farm Bureau Federation would be more than happy to accept a freeze if it is applied across the board in all areas?

Ms. RICE. That is correct.

Senator ANDREWS. Thank you very much.

Senator Burdick.

Senator BURDICK. When you say all areas, are you including military, too?

Ms. RICE. Yes, sir, we are. In fact, I should point out that that is a bit of a change for the Farm Bureau. Last year, we had a policy which said that we would support a budget freeze with the exception of defense and interest payments on the national debt. This year, our policy reads, we support an aggregate budget freeze including defense and that all departments should be examined for cuts in available spending.

Senator ANDREWS. Unfortunately, we have no cuts on defense. We have to pay what we are spending, but that would be reduced by $50 billion if we could get these deficits under control. I am sorry.

Senator Burdick. I want to commend you for your position on the freeze. That is the minimum we can do.

Ms. RICE. I think that was a difficult position for our delegates to reach, but I think they did the right thing.

Senator ANDREWS. Thank you, Ms. Rice.

I think you touch a spot, but both of us are from the same State, although different political aisles, and it wasn't an easy thing to do. Everyone across the board can understand if everyone can take a step. Thank you.

Ms. RICE. Thank you, sir.

[Ms. Rice's prepared statement follows:]

STATEMENT OF GRACE ELLEN RICE

Mr. Chairman and members of the Subcommittee, Farm Bureau appreciates the opportunity to present testimony on the FY 1986 budget request for the Department of Agriculture.

The American Farm Bureau Federation is the nation's largest general farm organization with a membership of over 3 million families in 48 states and Puerto Rico. Farm Bureau members produce almost every type of commodity grown commercially in this country. Our policy is developed by the producer members at the county, state and national levels of the organization. The recommendations of Farm Bureau's commodity advisory committees supplement Farm Bureau policy and, in part, form the basis for our position on funding levels for specific USDA programs.

As in 1984, Farm Bureau's overriding concern is federal spending and the resulting effect on agriculture. Like many businesses and individuals, farmers and ranchers continue to find themselves in serious economic difficulty. Agriculture remains in a severe adjustment period due to excess supplies of most farm commodities caused by weakened domestic and world demand and protectionist positions taken by some of our trading partners. Export values continue to decline and are expected to decrease from $38 billion in FY 1984 to $34.5 billion in FY 1985, down from an all-time high in FY 1981 of $44 billion. Soft domestic and export markets coupled with agricultural credit problems make it incumbent upon Congress to provide adequate USDA funding in 1986 and to formulate a 1985 farm bill that addresses both the short and long term market and income needs of agriculture.

Overview of Farm Bureau's Budget Policy

In his testimony to the Senate Agriculture Committee on March 7, 1985, American Farm Bureau Federation President Robert Delano emphasized a major point that is reiterated throughout Farm Bureau policy: "The prescription for fundamental and lasting benefits for agriculture is dependent upon a commitment to fiscal responsibility and reduced overall federal spending in order to promote economic growth through lower interest rates, more favorable exchange rates, and increased U.S. farm exports."

Consistent with this prescription for agriculture's health is Farm Bureau's continuing support for a three-year moratorium on cost-of-living-adjustments (COLAs) in all federal programs and a freeze in total federal spending at the FY 1985 appropriations level with the exception of interest payments on the national debt. All departments of the government should be examined for cuts in spending. During the COLA moratorium period, Congress would have the obligation to make structural reforms in the entitlement programs, particularly in the cost-of-living-adjustments. Farm Bureau's Freeze and Fix proposal is designed to reduce federal spending, undoubtedly the principal reason for record high federal deficits.

FY 1986 USDA Budget Overview

In testimony for the past three years to the House and Senate Appropriations Subcommittees on Agriculture, Farm Bureau has indicated support for reduced spending in the Department of Agriculture even though many of the cuts were in programs viewed as helpful to agriculture. We advised the Subcommittees that Farm Bureau could support a reduced level of spending, but we were concerned that within the budget parameters a serious distortion in spending priorities for production agriculture existed. We believe that situation continues to be true.

Farm Bureau's concerns about the FY 1986 USDA budget are virtually identical to those expressed to the Subcommittee last year and the two previous years. Principally, the allocation of proposed USDA funding is neither equitable nor wise. Any attempt by the Administration to freeze FY 1986 spending is not a freeze as far as agriculture is concerned. As previously mentioned, Farm Bureau supports a total budget freeze, but the Administration's original budget request produces significant cuts or the elimination of many Farm Bureau supported programs.

The following sections highlight Farm Bureau's concerns on the USDA budget for FY 1986.

Research and Education

Farm Bureau is a traditionally strong supporter of research and extension within the Department of Agriculture. Research has played a major part in the enviable stature of American agriculture today, and the extension programs have helped make it possible for all farmers and ranchers to benefit from the results of agricultural research.

Formula funding for most of the research and education programs of the Cooperative State Research Service and the Extension Service are frozen at the 1985 level. This is consistent with Farm Bureau's proposal to freeze total federal spending. We maintain our support for agricultural research and extension work, but do not consider a one-year freeze on formula funds to be unreasonable. However, we are concerned that formula funds for animal health and disease research (Section 1433) have been terminated ($-5.8 million). We urge restoration of the program to the FY 1985 level.

Commodity and International Programs

Foreign market development will be one of the keys to restoring the health of the agricultural economy, and Farm Bureau encourages the Administration to use every tool at its disposal to increase exports. These tools include guaranteed and direct loans and credit, an expanded P.L. 480 program, and creative financing methods such as blended credits. Funding for these programs should in no case be less than the FY 1985 level. Moreover, we encourage the Subcommittee to consider funding the export credit revolving fund and exempting all export activities from cargo preference laws which increase substantially the cost of exporting U.S. agricultural commodities. Cargo preference makes U.S. commodities less competitive in the world market.

Farm Bureau opposes the imposition of an origination fee for export credit guarantees.

Soil and Water Conservation Programs

The Administration has called for reductions in the Soil Conservation Service budget that would reduce the agency to one-third of its 1985 funding and staffing level by 1987. SCS funding is proposed to go from $603 million in 1985 to $454 million in 1986 to $200 million in 1987. In addition, the Agricultural Stabilization and Conservation Service agricultural conservation program and cost sharing programs would be discontinued. Farm Bureau does not support these cuts and urges the Subcommittee to restore funding to the FY 1985 level.

Small Community and Rural Development

Farm Bureau policy states that the guaranteed and insured loan programs of the Farmers Home Administration should be continued, especially farm ownership and farm operating loan programs. We are pleased to see increased emphasis on guaranteed loans made by the private sector, but question the decrease for insured farm operating loans as well as farm ownership. Funding should be restored to the FY 1985 levels for these programs.

Farm Bureau continues to believe that the principal mission of the Farmers Home Administration is to serve production agriculture. As the Subcommittee knows, the Farmers Home Administration has a heavy case load of nonagricultural loans such as community facility loans, water and waste disposal loans, business and industrial loans, and rural housing loans. This loan mix often means that the administration of farm loan programs is secondary to non-farm loan activities.

Until agriculture becomes financially healthier, we believe that the principal emphasis of the FmHA should be placed upon farm borrowers rather than non-farm programs.

Marketing and Inspection Service

In the FY 1986 budget the Animal and Plant Health Inspection Service will experience a reduction of $33.6 million to a level of $247.2 million. This decrease is the result of a number of proposed changes. For instance, funds for the brucellosis eradication program will decrease by $14.9 million from last year's funding level of $73.4 million.

Farm Bureau opposes the decreased funding level for brucellosis eradication because it is inadequate to maintain program progress. Instead, we support restoration of funding to the FY 1985 level and the affirmative approach undertaken by Congress last year by establishing brucellosis eradication program goals.

The Subcommittee will be interested in the program objectives of the AFBF Beef Cattle Advisory Committee which were recently approved by the AFBF Board of Directors:

1. Total eradication of brucellosis in the United States and Puerto Rico is the objective of the program.
2. Efforts should be continued to clean up the remaining infection in "A" States so that a higher proportion of federal brucellosis funding and manpower can be shifted to "B" and "C" states.
3. An accelerated program of calfhood vaccination should be encouraged nationwide to provide maximum protection.
4. Adult vaccination should be expanded as a tool in the eradication of brucellosis nationwide particularly in those states of high incidence.
5. Necessary federal funding should be provided to assure adequate program continuation to achieve brucellosis eradication.
6. Primary and secondary surveillance programs are a vital part of a total eradication program and should be stepped up where necessary.
7. Funding for vaccination and indemnity must be tied to a herd plan.

The United States is close to eradicating brucellosis. Now is not the time to reduce funding or shift to another funding method. Farm Bureau asks the Subcommittee to restore funds for the brucellosis eradication program to the FY 1985 level of $73.4 million.

We also oppose efforts to weaken quarantine 37 and urge restored funding of APHIS efforts to enforce this important plant protection program.

In addition to program reductions, user fees are a major part of this year's budget as they are proposed for certification of animals, plants, and plant products for export, quarantine costs for imported animals, the entire veterinary biologics program, food safety and inspection service programs, market news, marketing standardization and labeling, marketing agreements and orders, grain inspection compliance and standardization, Packers and Stockyards Administration activities, and technical assistance activities of the Agricultural Cooperative Service.

Farm Bureau supports the imposition of user fees if principal benefits of the program accrue to the producer. However, we question whether the program benefits associated with these fees are beneficial primarily to farmers. We request that sufficient fees be imposed on plant material imported to cover the costs of adequate inspection and fummigation.

Farm Bureau asks that USDA programs about which we have expressed concern be restored to the 1985 funding level. We believe that this request represents a responsible approach to the FY 1986 budget and to the needs of farmers and ranchers.

Thank you for your consideration of our views.

SUBCOMMITTEE RECESS

Senator ANDREWS. This brings our hearing for today to a close. We will again hear from congressional and nondepartmental witnesses regarding the 1986 budget tomorrow in this same room beginning at 9:30 a.m. Until then, this subcommittee will stand in recess.

[Whereupon, at 5:03 p.m., Monday, April 15, the subcommittee was recessed, to reconvene at 9:30 a.m., Tuesday, April 16.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1986

TUESDAY, APRIL 16, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:30 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin Burdick presiding.

Present: Senators Burdick, Mattingly, Abdnor, McClure, Sasser, Specter, and Bumpers.

NONDEPARTMENTAL WITNESSES

OPENING REMARKS

Senator BURDICK. Good morning, the subcommittee will come to order. This morning, we will continue our hearings on the 1986 budget requests for the Department of Agriculture and related agencies which come under the jurisdiction of this subcommittee.

We welcome all of you and want you to know that the prepared statements you have submitted to the subcommittee will be made a part of the record in full, and because of the number of witnesses we have, we would hope you will keep your oral statement to the alloted 5 minutes.

We should point out to the witnesses that the subcommittee cannot receive any copyrighted materials for publication in our record, unless arrangements have been made in advance by the witness to obtain permission from the copyright owner that these materials be included in the record. This is to protect both the right of the owner as well as the subcommittee and the witnesses.

U.S. AGRICULTURAL EXPORT DEVELOPMENT COUNCIL

STATEMENT OF GEORGE COORDSEN, FARMER, HEBRON, NE

ACCOMPANIED BY:
RICHARD KRAJECK, FEED GRAIN COUNCIL
ALLEN BEACH, COTTON COUNCIL

Our first witness this morning is George Coordsen from Hebron, NE, who is representing the U.S. Agricultural Export Development Council.

Welcome, Mr. Coordsen.

Mr. COORDSEN. Good morning, Mr. Chairman, distinguished members of the committee. I am George Coordsen, a farmer, it says here. I would rather consider myself a production agricultural specialist, from Hebron, NE.

I serve as the chairman of the Nebraska Grain Sorghum Board, and I am a director of the U.S. Feed Grains Council.

I am accompanied by Mr. Richard Krajeck of the Feed Grain Council and Allen Beach of the Cotton Council, who are here to assist me in answering any questions you may have.

I will just summarize the most important points in my summation, but I request that the written testimony will be entered in the record.

I am here today on behalf of the U.S. Agricultural Export Development Council, whose members are better known as the cooperators. You can see from the letterhead on which our testimony is printed that it is really a wide range of agricultural production interests, from Angus cattle to wine, that is reflected in the membership of the council.

Your committee has been very supportive of market development in the past and we want you to know that we appreciate that support. Also, farm exports have decreased greatly since 1981 and are expected to drop still further in 1985 to a projected $34.5 billion.

I know, from the point of view of the producer, that this is not the time to reduce efforts to develop new markets or to maintain our current foreign markets. We are also aware of the historical and growing importance of agricultural exports to the entire economy and the contributions that they make toward increasing farm prices.

It is important that farm exports continue to increase, to assist in reducing Government outlays on storage costs, but more importantly to reduce our $100 billion-plus and growing trade deficit.

We support the budget requests submitted for foreign agricultural market development in 1986. In the annual strategic planning process, FAS and the cooperators historically evaluate programs and long-term goals in order to identify those opportunities likely to generate the greatest returns for dollars invested.

I would like to point out that cooperators, which includes people like myself and my neighbors, contribute the major share, by a 2-to-1 ratio, of the operating expense of the joint Market Development Program.

Credit is absolutely the essential part of today's international environment. Unfortunately, blended credit, recognizing the need for competitive credit, had to be suspended recently because of the cargo preference ruling. We, therefore, support the administration's request for $5 billion for credit guarantees in 1986.

We feel that the GSM–102 credit guarantees program is working well, particularly because it operates through the private sector and requires no initial Government outlays. However, in order to meet competition and to maximize sales under GSM–102, we feel an additional $2 million in loan guarantees should be mandated by your committee—$2 billion, excuse me. For a farmer, it gets confusing when you get so many zeros.

This is most critical to those of us who produce grain sorghum. Mexico's imports of grain sorghum annually equals the total production of grain sorghum for my home State of Nebraska; yet, we are losing market share because of problems in credit availability at times.

We also feel that the proposed 5-percent origination fee would defeat the purposes of credit, as it would make the program too expensive for our foreign customers to use. The current guarantee fee range is from one-third to two-thirds of 1 percent and should be continued.

We also urge you most strongly to give consideration to the benefits of authorizing a revolving fund for agricultural exports. Since authorized in the 1981 farm bill, the revolving credit fund has never been implemented, and the concept still has the support of operators and agribusiness leaders.

In 1985, total funding for Public Law 480 amounted to $2.1 billion. The 1986 budget request is for only $1.68 billion. In light of the continuing food needs for Africa and other developing areas of the world, and the continuing debt problems in many of the developing countries, we do not foresee that the need for Public Law 480 shipments will be less than they have been.

We, therefore, recommend that an additional $500 million be allocated to the program, which will restore the program funding to last year's level. We strongly urge the subcommittee to specify that USDA have a primary role in allocating funds for that Public Law 480 assistance which is used to maximize market development efforts for U.S. agricultural production.

We have submitted statistical information on foreign market development and also a printed booklet, that I have here in my hand, on some of the activities and achievements of members of the council. I think you will find the information interesting and worthwhile.

In spite of the current problems, agricultural exports will continue to play an important role in the future prosperity of the United States. I also believe that the partnership that has evolved over the years between the Foreign Agricultural Service and the cooperators has brought outstanding results for the producers and the general economy of the United States.

Remember this: The American food production system must be returned to a level of profitability that will enable the American food producer to survive and prosper in the American economy, for the economic, fiscal, and political well-being of both the United States and the rest of the world.

The various Federal market development funds and the various credit programs play a vital role in this effort.

Thank you, and we will attempt to answer any questions that you might have.

Senator BURDICK. Thank you very much.

What is the principal difference, from the exporters' perspective, in the Public Law 480, title I program and the GSM–102 Direct Credit Program? What are the essential differences? Would you care to answer that?

Mr. BEACH. Mr. Chairman, my name is Allen Beach. I am with the Cotton Council International. The essential difference is that, of course, Public Law 480 is more of an aid-type of program which the Government—that is the U.S. Government—is financing all of the costs of the commodity and the shipping.

Under the GSM-102 program, this is a credit guarantee program under which the exports are made and the U.S. Government, the FAS, is really guaranteeing the payment to the exporter.

So the 102 program is a commercial program where the Government is assisting in the credit. Whereas on Public Law 480, the Government has the primary role all the way through, and the financing, and the selling. But Public Law 480 is done through private exporters.

Senator BURDICK. Public Law 480 is more or less a gift, and the other program is a sale?

Mr. BEACH. That's correct, Mr. Chairman.

Senator BURDICK. Your statement focuses on export credit programs. What other actions by the Government or by the private sector are necessary to return the United States to the level of exports experienced in the late 1970's?

Mr. COORDSEN. My personal opinion, sir, is that we are going to have to look at ways of moderating the influence of some of our competitors, competing countries' programs that they use to serve or enter into our market.

I am talking about some of their credit programs, their other—what we feel are—make it difficult for the American farmer to compete.

I don't think that was a very clear answer. What I am saying is that, as a for-instance, I will have to address it from the perspective of grain sorghum, in that some of our competing countries are providing credit guarantees, perhaps, or lower prices on freight rates, this type of thing, that make it hard for us to compete in certain markets.

Senator BURDICK. Well, you and I are both from farm country, and one of the problems that I see that has been developing in the last few years—and you mentioned the downturn in exports since 1981—one is that in Europe there used to be a market, but now it is self-sufficient.

I was in Togo on the western edge of Africa, and lo and behold, they are self-sufficient. I am not talking about eastern Africa with the drought.

But other nations in the area are in production. So many nations are producing more than they did in the past, and we have been helping them produce more. So you see that is a problem. Do you see that as a problem?

Mr. COORDSEN. It could very well be a problem.

Senator BURDICK. How do you break into Western Europe? How do we break into Western Europe?

Mr. COORDSEN. How do we break into Western Europe.

Senator BURDICK. You have a variable levy and you have got all kinds of mechanics.

Mr. Coordsen. I rather suspect—and again, I speak personally—that if there are to be increased sales in Western Europe, they most probably would be on the value-added side rather than raw material, because of their internal production subsidies for producers.

I think, as a Nebraska farmer, Nebraska agricultural producer, that they will continue their internal production subsidies, contrary to popular opinion, for some period of time, because of their insistence on raising enough food for themselves.

However, that does not mean that there are other areas in the world where we might look for export opportunities. The Far East is an area where some of the countries that you can talk about are going to be looking at, as a market for their products. Western Europe, Australia, Argentina, and South Africa, when it starts to rain again, are going to be competing with us in the Asian markets.

We need to be prepared with export subsidies, with whatever it takes, aside from market development, to make sure that the United States maintains—at least maintains—and hopefully increases their share of that growing market.

Senator Burdick. Senator Mattingly.

Senator Mattingly. Thank you, Mr. Chairman.

I appreciate your testimony here today and I want to emphasize that we, in the Congress, are interested in formulating a sound, coherent, long-range trade policy, that is a basic foundation for the restoration of our agricultural economy.

I think too many years we have allowed the trade situation to deteriorate and had a series of band-aid-type approaches to try to treat the symptoms of an ailing farm economy, instead of helping the farmer to do what we can do best, which is produce.

If our farmers have—I think, what you are talking about here—have equal access to markets and can compete in the world marketplace, on an equal basis, then we are going to do well. We are going to restore some vitality and profitability to the farmers.

I would like to ask you to expand on the question of what we should be doing about the recent court decision which effectively choked off our blended credit program, which was at least helping move our American farm products overseas.

In other words, do you think we should completely renew the requirements for cargo preference? Or instead, simply call it a subsidy and apply whatever levels are necessary to help maintain this maritime industry? Do we do it through appropriations to the Maritime Administration?

Mr. Coordsen. My answer to that would be, yes, sir. Yes.

Senator Mattingly. Thank you. That is the only question I have, Mr. Chairman.

Senator Burdick. Thank you, gentlemen.

[Mr. Coordsen's prepared statement follows:]

STATEMENT OF GEORGE COORDSEN

Mr. Chairman, members of the subcommittee, my name is George Coordsen and I am a farmer from Hebron, Nebraska. I serve as Chairman of the Nebraska Grain Sorghum Development, Utilization and Marketing Board, and also serve on the Board of Directors of the U.S. Feed Grains Council. I appreciate the opportunity to testify today on behalf of the U.S. Agricultural Export Development Council. The Council represents the interests of 65 organizations which participate in the foreign market development programs with the Foreign Agricultural Service of USDA.

USAEDC members are predominantly producer- and agribusiness-oriented non-profit organizations which work with U.S. agricultural counselors, attaches, and trade officers in over 100 countries to develop, expand and maintain markets for U.S. agricultural products.

For your information and for the hearing record, we are appending a representative cross-section of some of our members' activities and achievements in their joint efforts with FAS in the foreign market development program.

Mr. Chairman, U.S. farm exports were boosted to $38 billion in 1984, but are expected to drop to $34.5 billion in 1985. Much of the drop in export value was due to the high U.S. dollar, but aggressive promotion by Cooperators and the Foreign Agricultural Service helped generate export business for the American farmer.

The historical and growing importance of agricultural exports to the entire economy has made the market development program an integral part of USDA's farm program, and is the only program devoted entirely to expanding overseas demand for our farm products. It is not possible to assess all who benefit from agricultural exports -- American producers and many other groups gain directly, including food, feed and fiber handlers and processors, the transportation industry, farm machinery and equipment manufacturers, fertilizer and chemical manufacturers, banks and insurance companies.

Not only do agricultural exports contribute to increased farm prices and general economic activity, but more importantly, they assist in reducing government outlays on storage costs. The latest study in National Food Review (through its input/output model) reports that in 1984 U.S. agricultural exports contributed to increased economic activity of $2.36 per dollar of exports and increased employment in the U.S. at a rate of 32,000 jobs per $1 billion of exports.

We are grateful to you and members of your Subcommittee for your past support, and we come before you today to encourage passage of the President's budget request for Foreign Market Development in 1986. In this regard, we want to stress that Cooperators contribute 70% of the total expenditures for overseas market development and will continue to more than match the funds utilized by USDA/FAS.

Over the past few years we have worked closely with FAS/Washington and their counselors and attaches in the field on our planning system and to allocate resources to those markets and programs which offer the best potential use for U.S. export expansion. We have developed methods and techniques to improve market assessment and forward planning, and will continue to evaluate our efforts before planning further expansion.

Outlook

Although 1984 was a year of recovery, U.S. agricultural exports in 1985 are projected to decline in value to $34.5 billion. The problems we in agriculture must contend with are strong competition from record foreign production, along with production gains in some large importing countries, which will offset any export-promoting effects of lower supplies in competing countries.

USDA and Cooperators are increasingly directing emphasis and funds toward Less Developed Countries. Unfortunately, underlying factors such as the worldwide recession and mounting loan problems of developing countries have dampened foreign demand. In addition, the greatly increased value of the dollar and high interest costs further depressed foreign demand for U.S. agricultural products.

The present long-term program is vitally important because it is imperative that U.S. agriculture gain a meaningful share of these markets.

Credit

Credit is essential in today's international environment, one which is dominated by the strong U.S. dollar, subsidized exports from competitors, and weak economies of foreign customers.

During the years 1955 to 1980, USDA offered direct credits to maximize exports and maintain U.S. share of foreign markets. Exports rose, there were few losses on bad debts, and the proceeds from credit sales were returned to the U.S. Treasury. Between 1980 and 1982, however, the United States had nothing to offer in the way of credits other than the GSM-102 Credit Loan Guarantee Program and P.L. 480.

The blended credit program established in 1982 recognized the need for competitive credit, but the program had to be suspended because of the recent court decision finding it subject to cargo preference, which would make shipment of commodities prohibitively expensive. Any future court decision applying cargo preference to other credit programs, such as GSM-102, would make us uncompetitive. American producers simply cannot compete in world markets if cargo preference applies to USDA credit programs.

In 1984 we used nearly all the funds allocated for the credit guarantee program. The 1985 authorization totaled $5 billion, and the Administration has requested the same amount for credit guarantees in 1986. USAEDC supports the request for $5 billion in 1986 for credit guarantees. We feel the program is working well and should be retained as it operates through the private sector and requires no initial government outlay.

In order to meet competition and maximize sales under GSM-102, credit terms should be allowed up to the maximum provided in the program. We are losing sales when less favorable terms are offered.

However, the five percent origination fee proposed would defeat the purpose of the program as our foreign customers would find it too expensive to use. The five percent origination fee would increase the cost to the buyer by an estimated additional 20 cents per bushel for wheat and 15 cents per bushel for feedgrains. A 25,000 ton sale would cost an extra $183,500 for wheat and $147,000 for feedgrains. Currently the guarantee fee ranges from one-third to two-thirds of one percent. An increase to five percent would make it impossible for the U.S. to compete in world markets.

There continues to be a need for intermediate credit. The GSM-201 and GSM-301 programs have not been funded for many years. While both are direct credit programs, we believe that they could be operated as a loan guarantee program under the existing legislation.

Although authorized in the 1981 Farm Bill, the Revolving Credit Fund has never been implemented. The concept still has the support of Cooperators and business leaders in the agricultural complex and we urge your Subcommittee to give careful consideration to the benefits which can be derived from such a revolving fund to promote commercial sales of American farm products.

We feel $2 billion in loan guarantees should be mandated for intermediate credit guarantees.

P.L. 480

In 1985 total funding for Titles I/III, including a supplemental appropriation, is now estimated at $1,106 million. Title II, including the 1984 supplemental appropriation of $60 million and the recent supplemental of $201 million, is estimated at $1,001 million. The total estimated program level for all titles is therefore $2,107 million. The 1986 budget request for all titles is $1,680 million.

In light of the continuing needs for Africa and the debt problems in many of the developing countries, we do not foresee that the need for P.L. 480 shipments will be less than they have been until now. We therefore advocate that an additional $500 million be allocated for P.L. 480 to restore the program to last year's level.

We recommend your Subcommittee specify that USDA have the primary role in allocating funds to all commodities and to make sure that P.L. 480 assistance is used to maximize market development efforts for U.S. agricultural products.

We also recommend your Subcommittee direct that more high-value and value-added products be included in the commodity list of P.L. 480 Title II shipments.

Conclusion

We have attached statistical information on the costs of foreign market development. We believe the partnership that has evolved between the Foreign Agricultural Service and the Cooperators is one that has brought outstanding results.

In spite of current problems, we believe that agricultural exports will continue to play an important role in the future of prosperity in the United States.

Thank you. I will be happy to answer any questions you may have.

I.

HISTORICAL SUMMARY
VALUE OF U.S. FOREIGN TRADE AND TRADE BALANCE

FISCAL YEARS 1970 - 1984

	U.S. EXPORTS				U.S. IMPORTS				TRADE BALANCE		
FISCAL YEAR	AGRICULTURAL	NON-AGRICULTURAL	TOTAL	% AGRICULTURAL OF TOTAL	AGRICULTURAL	NON-AGRICULTURAL	TOTAL	% AGRICULTURAL OF TOTAL	AGRICULTURAL	NON-AGRICULTURAL	TOTAL
	million dollars			%	million dollars			%	million-dollars		
1970	6,598	34,337	41,295	17	5,686	33,379	39,065	15	+1,272	+958	+2,230
1971	7,955	35,928	43,883	18	6,128	38,744	44,872	14	+1,827	-2,816	-989
1972	8,242	36,633	44,875	18	5,936	45,926	51,862	14	+2,306	-9,293	-6,987
1973	14,984	47,759	62,743	24	7,737	57,521	65,258	12	+7,247	-9,672	-2,515
1974	21,559	69,423	90,982	24	10,031	81,995	92,026	11	+11,528	-12,572	-1,044
1975	21,817	83,178	104,995	21	9,435	89,251	98,686	10	+12,382	-6,073	+6,309
1976	22,742	89,047	111,789	20	10,492	103,743	114,235	9	+12,250	-14,696	-2,446
1977	23,974	95,144	119,118	20	13,357	129,061	142,418	9	+10,617	-33,917	-23,300
1978	27,289	104,270	131,559	21	13,886	152,095	165,981	8	+13,403	-47,825	-34,422
1979	31,979	135,639	167,618	19	16,186	177,424	193,610	8	+15,793	-41,785	-25,992
1980	40,481	169,753	210,234	19	17,276	219,305	236,581	7	+23,205	-49,552	-26,347
1981	43,783	185,415	229,203	19	17,218	237,469	254,687	7	+26,570	-52,054	-25,484
1982	39,094	176,311	215,405	18	15,346	233,488	248,834	6	+23,748	-57,177	-33,429
1983	34,769	159,373	194,142	18	16,271	229,438	245,709	7	+18,498	-70,065	-51,567
1984	38,025	170,016	208,041	18	18,898	295,106	314,004	6	+19,127	-125,090	-105,963

SOURCE: 1970-1984 USDA, ERS. U.S. Foreign Ag. Trade Statistical Report Fiscal Year 1981, Page 1.

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FISCAL YEAR EXPENDITURES OF FEDERAL FUNDS AND COOPERATOR CONTRIBUTION AND TOTAL AGRICULTURAL EXPORTS

II.

	(1) FEDERAL FUNDS	(2)	(3)	(4)	(5)	(6) FUNDS DISTRIBUTION	(7)	(8) MARKET DEVELOPMENT COSTS	(9)	(10)
FISCAL YEAR	PROJECTS	FAS	TOTAL	COOPERATOR FUNDS	TOTAL FUNDS	FEDERAL	COOPERATOR	AGRICULTURAL EXPORTS	FEDERAL	COOPERATOR
	$1,000					% of TOTAL		$Million	% of Export Value	
1971	8,847	858	13,705	18,613	32,315	42	58	7,955	.11	.23
1972	10,054	1,730	11,874	20,605	32,389	36	64	8,242	.12	.25
1973	10,045	930	10,975	22,112	33,087	33	67	14,984	.07	.15
1974	10,234	658	10,892	23,342	34,234	32	68	21,559	.05	.11
*1975	11,739	830	12,659	26,997	39,566	32	68	21,817	.05	.12
1976	10,922	796	11,718	24,158	35,876	33	67	22,742	.05	.11
1977	11,719	798	12,517	29,420	41,937	30	70	23,974	.05	.12
1978	13,926	879	14,805	35,331	50,136	30	70	27,289	.05	.13
1979	16,709	963	17,672	39,660	57,332	30	70	31,979	.05	.12
1980	18,778	1,165	19,943	47,373	67,316	30	70	40,481	.05	.12
1981	20,195	1,014	21,209	51,502	72,711	29	71	43,788	.05	.12
1982	20,641	878	21,519	54,804	76,323	28	72	39,094	.06	.14
1983	23,373	869	24,242	65,790	90,032	27	73	34,769	.07	.19
1984	27,429	1,501	28,930	68,087(est)	97,017	30	70	38,025	.08	.18

* Cover 15 month period

FOOTNOTES:

(1)	FAS Expenditures for Cooperator Projects
(2)	FAS Expenditures for own projects
(3)	Column (1) + (2)
(4)	Cooperator expenditures from own and related funds including foreign
(5)	Total expenditures for foreign market development
(6) & (7)	Share of total expenditures by source
(8)	Value of total U.S. exports of agricultural commodities
(9) & (10)	Market development costs as percent of value of total exports

NOTE: If forest products are included, the agricultural exports for 1982 would total $41.9 billion, and the Federal and cooperator market development costs would be .05 and .13 percent respectively; 1983 would total $37.6 billion, and the Federal and cooperator market development costs would be .06 and .16 percent, respectively; 1984 total $40.8 billion and the Federal and cooperator market development cost would be .07 and .17.

Source: USA/FAS/CMP/EPD/PDB 2/5/85
WP 1431P

111.

USDA AND COOPERATOR MARKET DEVELOPMENT EXPENDITURES EXPRESSED AS A PERCENTAGE OF TOTAL AGRICULTURAL EXPORTS.

FISCAL YEARS 1971 - 1984

FISCAL YEAR	EXPORTS ($ billions)	MARKET DEVELOPMENT 1/ ($ thousands)	% OF EXPORTS
1971	8.0	20,569	0.26
1972	8.2	18,785	0.23
1973	15.0	18,536	0.12
1974	21.6	18,600	0.09
1975	21.8	22,656	0.10
1976	22.7	21,593	0.10
1977	24.0	25,069	0.10
1978	27.3	30,000	0.11
1979	32.0	33,935	0.11
1980	40.5	39,748	0.10
1981	43.8	42,344	0.10
1982	39.1	49,594	0.13
1983	34.8	54,389	0.16
1984 (Estimate)	38.0	62,533	0.16

1/ Excludes Foreign Third Party Contributions

SOURCE: FAS/CMP/EPD/PDB 2/5/85
WP 1431P

Agricultural Exports and Market Development
Expenditures of the United States and Its Principal Competing Countries 1/

1981-83

COUNTRY	REVISED 1981			REVISED 1982			ESTIMATED 1983		
	EXPORTS	MARKET DEVELOPMENT	PERCENT OF EXPORTS	EXPORTS	MARKET DEVELOPMENT	PERCENT OF EXPORTS	EXPORTS	MARKET DEVELOPMENT	PERCENT OF EXPORTS
	Bil. Dol.	Mil. Dol.	Pct.	Bil. Dol.	Mil. Dol.	Pct.	Bil. Dol.	Mil. Dol.	Pct.
Australia 2/	9.1 (7.9)	81.7 (70.9)	.90	8.2 (7.4)	78.9 (71.5)	.97	8.0 (8.1)	72.2 (72.9)	.90
Canada 3/	7.4 (8.8)	5.5 (6.6)	.08	7.6 (9.3)	11.7 (14.5)	.16	7.8 (9.6)	13.6 (16.9)	.18
Denmark 4/	4.1 (29.3)	20.7 (148.5)	.51	4.0 (33.4)	20.4 (169.4)	.51	3.7 (34.5)	20.0 (185.6)	.54
France 4/	17.3 (95.0)	16.5 (90.6)	.10	15.5 (101.4)	17.2 (112.1)	.11	15.6 (120.0)	16.9 (130.1)	.11
Israel 4/ 5/	.9	5.2	.58	.9	13.1	1.46	.8	10.6	1.33
Netherlands 4/ 6/	15.9 (39.7)	48.7 (121.8)	.31	13.9 (37.0)	44.2 (117.8)	.32	13.3 (38.2)	35.4 (102.2)	.27
New Zealand 7/	4.3 (4.7)	44.1 (37.7)	.80	4.1 (4.7)	36.8 (47.9)	1.02	3.5 (5.2)	39.5 (59.4) 8/	1.14
South Africa 4/	2.2 (2.0)	20.0 (18.0)	.90	2.0 (2.1)	15.2 (16.2)	.77	1.5 (1.7)	15.3 (16.9)	.99
TOTAL	$61.2	$242.4	.40	$56.2	$237.5	.42	$54.2	$223.5	.41
UNITED STATES 9/	$43.8	$44.1	.10	$39.1	$51.9	.13	$34.8	$56.8	.16

1/ Exchange rate source: Treasury Reporting Rates of Exchange, Department of the Treasury Fiscal Service, Bureau of Government Financial Operations. Figures in parenthesis are expressed in the respective country's domestic currency.

2/ July-June fiscal year data.

3/ Export data based on calendar year, market development expenditures on April - March fiscal year.

4/ Calendar year data.

5/ Source for export data is 1981 FAO Trade Yearbook and Agricultural Counselor, Embassy of Israel. Israeli data is reported in U.S. dollars, the unit of account prevalent in Israel for reporting market development expenditures and exports. To convert these figures to Israeli Shekels for comparison's sake would not be meaningful due to the Shekel's steady devaluation vis-a-vis the U.S. dollar.

6/ 1981 exports were taken from the 1981 FAO Trade Yearbook, United Nations.

7/ Export data based on calendar year, market development expenditures are aggregated over various fiscal years.

8/ Does not include trade show budget for 1983 -- figures are not currently available.

9/ October - September fiscal year data. Source for export data is November-December 1983 Foreign Agricultural Trade of the United States (FATUS). Market development data includes FAS funds and U.S. cooperator contributions.

FAS/CMP/EPD/JUNE 1984

ACHIEVEMENTS OF THE U.S. AGRICULTURAL EXPORT DEVELOPMENT COUNCIL AND THE FOREIGN AGRICULTURAL SERVICE JOINT EFFORT TO DEVELOP AND MAINTAIN FOREIGN MARKETS FOR U.S. AGRICULTURE

U.S. AGRICULTURAL EXPORT DEVELOPMENT COUNCIL

This booklet encapsulates the activities and achievements of the 66 members of the U.S. Agricultural Export Development Council.

They have proved that success is ten percent opportunity and ninety percent hard work. As this booklet shows, it's the ninety percent that makes the difference.

U.S. farm exports were boosted to $38 billion last year—much of the gain in export value was due to the high value of the dollar, but aggressive promotion by cooperators under the Foreign Agricultural Service (FAS) market development program helped generate export business for the American farmer.

The historical and growing importance of agricultural exports to the entire economy has made the market development program an integral part of USDA's farm program, and is the only program devoted entirely to expanding overseas demand for our farm products.

It is not possible to assess all who benefit from agricultural exports. American farmers and many other groups gain directly. Included among these are food, feed and fiber handlers and processors, the transportation industry, farm machinery and equipment dealers, fertilizer and chemical manufacturers, banks, and insurance companies.

A move is underway to make sure that U.S. agriculture is viewed from a global perspective and that conditions in international and local markets are taken into account when recommending ways to make present policies more effective.

This bodes well for the membership of the U.S. Agricultural Export Development Council. Our purpose is not only to build markets abroad, but also to maintain them.

ONE EXAMPLE OF MANY JOINT COOPERATOR/FAS ACTIVITIES

Individual cooperators not only work with FAS but also in tandem with other agricultural organizations. An example, a project to assist Venezuela's dairy industry, was sponsored by the following:

AMERICAN SOYBEAN ASSOCIATION (ASA)
St. Louis, Missouri

Promotes soybean and products for use in human nutrition and animal feeds. Maintains overseas offices for servicing foreign markets for soy products.

BROWN SWISS CATTLE BREEDERS ASSOCIATION (BSCBA)
Beloit, Wisconsin

Maintains registry, transfer of ownership, and pedigree records for the Brown Swiss breed of dairy cattle. Conducts breed improvement programs and other services for the industry.

HOLSTEIN ASSOCIATION (HFA)
Brattleboro, Vermont

Serves the U.S. Holstein industry by maintaining registry and pedigree records on Holstein cattle-and provides many technical services to dairymen, including those in other countries.

NATIONAL ASSOCIATION OF ANIMAL BREEDERS (NAAB)
Columbia, Missouri

An association of artificial breeding organizations that produce semen of high genetic quality from beef and dairy breeds for use in the U.S. and other countries.

NATIONAL RENDERERS ASSOCIATION (NRA)
Des Plaines, Illinois

An association of animal by-product companies producing edible fat products and high-energy ingredients for animal feeds.

U.S. FEED GRAINS COUNCIL (USFGC)
Washington, D.C.

An organization of producers and agribusinesses that promotes efficient utilization of coarse grains and coarse grains products throughout the world by providing technology assistance programs oriented to strengthen the livestock sector of developing nations according to their specific needs and goals.

The project began with a 13-day tour by a team of Venezuelan dairy industry representatives in four U.S. states plus the District of Columbia with the aim of telling the visitors how the U.S. became self-sufficient in dairy production.

Opportunities for expansion of Venezuela's dairy production are considerable. For example, that country could increase milk output per cow by 33 percent. And sales of U.S. feed grains could rise by as much as 320 thousand tons a year, assuming the U.S. maintains its market share of 80 percent.

AMERICAN HEREFORD ASSOCIATION

In the past year, some five thousand units of semen have been processed for overseas sales to Uruguay, Argentina, Brazil, Africa, Spain, Australia, New Zealand, and some Scandinavian countries.

Market development to enhance U.S. sales has been conducted in most of these countries by Association members. The purpose of a market development trip, which is jointly conducted with FAS, is not to sell semen from individual bulls.

Rather, the market team presents seminars outlining breed programs such as Total Performance Records and visits ranches and shows to gain knowledge of the needs of those potential customers. Through personal contact, both parties gain better understanding of the cattle industry in the respective countries and are better prepared to ask and answer questions pertaining to how U.S. genetics could enhance breeding programs abroad.

The growing use of American genetics by overseas breeders has resulted in enhancing the image of U.S. Herefords. Last year, American blood was prominent in the Hereford champions at major shows in Argentina, Brazil, Uruguay, South Africa, and Zimbabwe.

As a result of a cooperator program with FAS, 1984 saw a major beef cattle transaction involving the high tech industry. U.S. and South African breeders used embryo transplants and frozen embryos from a top caliber Hereford breeding female equally shared by Wiese and Sons of Manning, Iowa, and Mr. Toy Wild of South Africa.

The exact dollar value was not disclosed, but it goes well into five figures. More business is expected, as both the U.S. buyer and South African buyer will have joint ownership of the female as well as the calves resulting from embryo transfers in the two countries.

The unique transaction is but one of the many made with customers in South Africa, where cattlemen are anxious to move toward more efficient beef production and are turning to this country for breeding stock, semen and embryos from high performance females.

AMERICAN POLLED HEREFORD ASSOCIATION

In 1981, a group of U.S. breeders of registered Polled Herefords provided a gift of semen to members of the Zimbabwe Hereford Society with a commercial value of an estimated $20 thousand. U.S. breeders wanted to help Zimbabwe re-establish its herds, which had been depleted because of war in that country.

The progeny were born in 1982. Zimbabwe breeders were more than satisfied. The calves had larger frames than local stock, grew faster, and had less fat.

At the invitation of the Zimbabwe Hereford Society, a U.S. professor judged at a special show in 1984 and conducted a series of education seminars.

As a result of the gift of semen, Zimbabwe promises to become a steady customer. Breeders have visited the U.S., and developed a reputation of outstanding stockmen who are receptive to the genetic principles of herd improvement.

AMERICAN QUARTER HORSE ASSOCIATION

When it comes to horses with versatility, the American Quarter Horse tops the list. The American Quarter Horse Association (AQHA), through its market development program with FAS, set out to market American Quarter Horses in obvious markets as well as the not so obvious.

AQHA knew that the American Quarter Horse was a natural for Australia, New Zealand, and South America where it could be used in the livestock industry, so AQHA pursued these markets. Considering the versatility of the American Quarter Horse, AQHA began to promote American Quarter Horses in countries which had little or no use for horses in the livestock industry. The prime example of this promotion was in Europe. Exports in 1983 to Europe exceeded $400 thousand.

The Japanese for the first time imported some 50 head of American Quarter Horses in early 1984.

The Association's marketing activities include technical assistance, judging horse shows, breed demonstrations, and education clinics.

The Association believes exports will continue to increase because importers have confidence in the quality of the American Quarter Horse from the U.S.

AMERICAN SOYBEAN ASSOCIATION (ASA)

The American Soybean Association has worked to improve profits for U.S. soybean farmers for more than 60 years. Its international market development began in 1956 when ASA opened its first overseas office in Tokyo.

This year, ASA opened its 11th overseas office in Caracas, Venezuela, to serve the South American and Caribbean region.

ASA coordinates more than 200 projects in 76 countries. Its staff of livestock and human nutritionists, specialists in soybean oil processing and refining, and experts in international marketing contribute day-to-day support to its customers.

In 1957, ASA launched its first project—a consultant program to help build a Japanese hog industry which uses soybean meal as a primary feed ingredient. ASA has sponsored more than 500 overseas missions, involving more than 200 animal nutritionists, soybean oil technicians, veterinarians, and other experts.

Its overseas staff encourages customers to use its soybeans and soybean products more efficiently. They demonstrate how customers can increase their profits by using more U.S. soybeans. American soybean farmers and processors service what they sell through technical assistance.

ASA has sponsored more than 300 trade teams for 76 countries to observe and study uses of soybeans in our country, and how they can be adapted to their needs. Team members meet the needs of the soybean industry, and talk to industry and government researchers who study how to improve the quality of soybeans.

Some of ASA's export promotions in 1984:

- *Turkey*—By 1987, the World Bank will have funded the Development Foundation of Turkey (DFT), which plans to quadruple its broiler production to 28 million birds, or one-fourth of Turkey's poultry production. Because soybean meal supplies protein to poultry feed, a large-scale increase in broiler production will rapidly expand Turkey's soybean needs.

At the request of the DFT, ASA advised Turkish engineers and planners on how to expand soybean milling facilities to meet future feed needs of the poultry industry.

Result: The DFT recommended to the government a plan to expand Turkey's soybean processing capabilities. An increased commitment to processing soybeans—encouraged by a stronger demand for soybean meal by the poultry industry—could increase Turkey's soybean imports to 12 million bushels per year by 1990 from 2.6 million bushels in 1984.

- *Algeria*—Algeria's trading practices make it difficult for American businessmen to compete for Algeria's soybean markets. ASA participated in a USDA trade mission to Algeria at the request of the government. ASA explained how to reduce soybean trade restrictions between our countries.

As part of an ASA-sponsored project, two officials from the Algerian Ministry of Agriculture traveled to the U.S. to learn more about the U.S. soybean industry and the procedures for purchasing soybean meal.

Result: Algeria purchased 30,000 metric tons of soybean meal. Most previous purchases were made from Spain and Europe.

- *Southeast Asia*—In Southeast Asia, shrimp farming could be profitable. But shrimp producers need specific information on how to use soybean meal to make an inexpensive, quality shrimp feed.

On behalf of ASA, a shrimp expert held nutrition and production seminars throughout Southeast Asia. The consultant visited the feed industry to show industry leaders how to make a soybean meal-based shrimp feed. Subsequent studies done by researchers funded by ASA indicate that the soybean meal content in shrimp feed can range from 20 to 40 percent.

With cost-saving production techniques and strong industry growth, the Southeast Asian shrimp industry's need for soybean meal could increase soybean demand by as much as 5.8 million bushels from less than 100 thousand bushels in 1983.

For the American soybean farmers to make a profit by selling soybeans, ASA must demonstrate to our foreign customers how they can make a profit by using our soybeans. In Japan, ASA took this basic concept and applied it to least cost feed formulations for poultry. Using the micro-computer for analysis purposes, ASA hosted a series of seminars to demonstrate how one can calculate the cost of feed based on the nutrient requirements of the animals being fed.

For poultry, ASA demonstrated how replacing some of the fish meal, a traditional source of protein, with soybean meal could lower feed costs. The results of this demonstration created so much interest that one of Japan's major poultry producers has agreed to host a major feeding trial comparing soybean meal with fish meal.

For poultry, we are not only working to replace fishmeal with soybean meal, we are convincing the industry to increase its present total use of soybean meal from 14.9 percent crude protein to 16 percent. Meeting this latter goal alone will result in an additional demand for 12.8 million bushels of soybeans.

The least-cost feed formulation program is one of many examples of ASA's on-going efforts to increase the total amount of soybean meal in the animal ration to the American average of 14-15 percent. As a result of our effort, soybean meal usage increased from 10.4 percent in 1978 to 11.0 percent in 1983. Every 1/10th of one percent increase represents an additional 115 thousand bushels of soybeans. At a U.S. price of $7 a bushel, this represents an additional return to the American soybean farmer of $805 thousand.

The secret of success to market development is to not only expand the markets we already have for soybeans but to develop new opportunities. For Southeast Asia this means shrimp, the underwater livestock industry of the future. At present, the demand for shrimp exceeds production, with many entrepreneurs asking for technical information so that they can enter the market.

To provide them with general management support and specific feed-formulations, ASA has sent an aquacultural specialist to the region to conduct seminars and lectures and to research the potential for shrimp production. In Indonesia and the Philippines alone, our consultant learned that over 420 thousand acres of land are planned for pond development and shrimp production by 1985. Assuming that only 25 percent of these ponds are in operation, producing only a moderate amount of shrimp, and using a minimum of 10 percent soybean meal in the ration, the results will be an auditional 5.4 million bushels of soybeans required by these countries. Possibly in anticipation of this market, Indonesia is presently building a soybean processing plant that will require 450 thousand tons of soybeans per annum.

Responding to the increasing interest of Korea to develop its livestock production, ASA opened an office in that country in 1979. One major priority was to work with the Korean soybean processors and feed mills to produce a quality animal feed, and with the livestock industry to demonstrate the economic value in using it. Because of this effort, the demand for soybean meal increased from 582 thousand tons in 1979 to 790 thousand tons in 1983. This total increase of 208 thousand tons, an average growth of 1.8 million bushels of soybeans per year, has made Korea one of the fastest growing markets for American soybeans in the world.

Our success has been so great that Korea's demand for soybeans to meet its soybean meal requirement exceeds its demand for soybeans to meet its soy oil requirement by over 365 thousand bushels. To offset this deficiency, made up in Korea by importing soybean meal, ASA is also working closely with the industry to improve the quality of soy oil and to increase the demand for it. Through identified soy oil promotion campaigns, technical seminars on the use of soy oil-based recipe books, ASA has helped to increase soy oil demand from 59 thousand tons in 1979 to 105 thousand tons in 1983.

- *Algeria*—It has been very difficult for the American businessman to compete successfully in Algeria due to its proximity to its traditional European trading partners and the complexity of Algerian trading rules. However, noting the work being done by agricultural cooperators such as ASA in other parts of North Africa and encouraged by USDA, their government extended an invitation for a trade mission to visit the country. During the visit, ASA's representative explained how to make the import of soybeans less restrictive.

Following up on the trade mission, ASA sponsored the visit to the U.S. of two Algerian Ministry of Agriculture officials. They toured our country and learned how soybeans and soybean meal are produced and traded. Attention was also given to feed manufacture and poultry production. As a result of these visits, the Algerians purchased 30 thousand tons of soybean meal. This represented a return to the American farmer of over $7 million, and a sale that normally would have gone to a European supplier.

Algeria will purchase 300 to 400 thousand tons of meal in calendar 1985. This initial purchase, plus their interest in the U.S. as a supplier, gives us a new market.

- *Latin America*—Since 1971, the ASA program for the whole of Latin America has been managed by our Mexico City office. However, the demand for information on how to improve the quality of soybean meal and soy oil, how to more efficiently raise livestock, and how to better market products made from soy exceeded the ability of ASA to supply the information.

To resolve this problem and thus service better our increasingly important markets in South America and the Caribbean, ASA opened a new office in Venezuela. The goals of this office are to insure the continued five percent per annum growth in soy oil demand, and to exceed the present 61 million bushel market for soybeans.

- *India*—ASA has also expanded its technical servicing program to India by employing a soy oil specialist to assist in the developing of markets in the second most populous country in the world. Our goal there is to influence India to use the soybean meal it now exports in competition with the U.S., to feed its own poultry flocks and dairy herds and to meet its increasing vegetable oil requirements by importing soybeans from the U.S.

BROWN SWISS CATTLE BREEDERS ASSOCIATION

- *Switzerland*—The Swiss have been purchasing semen from the U.S. for a number of years. After a market development trip to Switzerland by a U.S. sales expert and a tour of U.S. Brown Swiss dairy farms by a Swiss delegation, the Swiss placed an order for over 150 thousand units valued at approximately $1.2 million.
- *Ecuador*—The sending of market development representatives to Ecuador resulted in the purchase of 120 heifers and 12 bulls by a government agriculture agency to be kept as breeding stock in facilities in the tropical area. Offspring will be distributed to local farmers to improve milk production of their herds. Total value of this shipment—$330 thousand—resulted in inquiries from several private Ecuadorian dairy farm owners. The unfavorable currency exchange rate has recently inhibited further sales.
- *El Salvador*—The Association's Latin America representative, again with the help of FAS funds, was judging a show, doing type classification work, and calling on prospective customers in Honduras. At the show he met a dairy farm owner from El Salvador who wanted to add to his herd, resulting in a purchase of 185 head ($245 thousand).
- *Guatemala*—GSM 102 Credit Guarantees—helped by the Guatemalan government's granting of favorable exchange rates for dairy cattle purchases—has resulted in a surge of demand for dairy cattle in that country. At this writing, late in fiscal 1984, pro forma invoices have been sent to Guatemala for 230 head ($500 thousand).

The export sales listed above are not large compared to total U.S. agricultural exports. They do illustrate, however, that even for a small organization such as the Brown Swiss Association, wise and aggressive use of FAS assistance can result in substantial export sales. A good number of Brown Swiss breeders were able to participate, enabling them to survive the economic hard times affecting the U.S. dairy farmer.

CALIFORNIA AVOCADO COMMISSION

Avocados are well-suited to the health consciousness and traditional diets of the Japanese, but exports have been hindered by the lack of consumer awareness. The Avocado Commission targeted promotional activities to create a need for an expanded distribution system.

During 1982, only one major importer of avocados existed; now there are three, with nine companies involved with the distribution of avocados. The expanded distribution network and expanded point-of-scale activities have resulted in increasing exports from about 350 metric tons in 1980 to 16 hundred metric tons in 1983.

CALIFORNIA CLING PEACH ADVISORY BOARD

The California Cling Peach Advisory Board held its annual hotel promotion at the Manila Garden Hotel, featuring California Canned Cling Peach and Fruit Cocktail in hotel restaurants. During this promotion, the California Cling Peach Advisory Board, in cooperation with the U.S. Agricultural Counselor, held a "Foodservice Reception" for major hotels and beverage managers, restauranteurs, the press, and Philippine government officials. Over 90 people attended to sample over more than 30 canned items.

The Board in cooperation with the Taiwan Baking Institute and the American Institute in Taiwan, held a California Cling Peach and Fruit Cocktail recipe contest at the International Hilton Hotel in Taipei. The recipe contest coincided with the International Hilton's Annual Cling Peach Fair, including a bake-off contest and reception, for 200 guests.

CALIFORNIA RAISIN ADVISORY BOARD

California Raisin shipments have increased by over 20 percent in 1982 to nearly 22 thousand tons in 1983, thanks to an aggressive campaign to increase consumer awareness by the Board and California raisin packers, with assistance from FAS. These efforts included trade servicing, advertising, and sales promotion activities, which are all based on the long-term goal of increased raisin consumption.

"Mini Marathon" and cross country ski meet events have generated awareness of raisins and have linked California raisins to health and fitness. To assist bakeries, retailers, and supermarkets, these events function as instruments of sales promotion and have brought favorable coverage by the media, including TV, radio, newspapers, and magazines. Too, more and more raisins are featured in the fresh fruit section of supermarkets.

CALIFORNIA TABLE GRAPE COMMISSION

In a continuing effort to market new grape varieties in Japan, in-store product demonstrations were held during June, July and August of 1983. As a result, shipments during those months increased 168 percent over the previous year. Shipments to Japan in 1983/84 increased 10 percent to 1,482 metric tons.

Aggressive promotion, which included media advertising and point-of-scale material distribution, led to record shipments to Panama of over 1.4 thousand metric tons, making Panama the leading importer for table grapes in Central and South America.

The greatest increases in table grape exports in recent years have been to Malaysia. Marketing efforts helped to boost shipments nearly 50 percent in 1983/84. In just four years, exports to Malaysia have increased 538 percent.

EASTERN USA FOOD EXPORT COUNCIL

Encouraged by the success of its first international trade show in New York in 1982, the Council repeated its performance in 1984, with outstanding results.

Buyers from 83 countries placed orders valued in the millions. Customers numbered over 1 thousand and total attendance was more than 11 thousand.

Draper King Cole, a Delaware vegetable packer, was a real winner. They had exhibited at the 1982 show very reluctantly and, in fact, turned away Middle Eastern buyers because they deemed the market too complicated, too risky, and too troublesome to bother with. However, some discussions did take place and a few small orders materialized.

Having become more confident, Draper King Cole took space at the 1984 show and decided to make a serious bid for more Middle Eastern business. Their efforts paid off. A major Arabian Gulf buyer stopped by and noted that they had Arabic labels already prepared and could quote delivered prices. End result: a contract for the delivery of a container load per week for the next two years.

Not only will this order contribute significantly to King Cole's profit picture but will also have beneficial side effects. It means that they can even out some of the peaks and valleys in their production and sales figures over the next two years and at the same time, they can forecast procurement and financial requirements with greater precision. Additionally, they will have entree into a market where competition is fierce.

The Council is counting on success stories such as this to encourage other sellers to participate in their 1986 show.

EMBA MINK BREEDERS ASSOCIATION (EMBA)

Due to the increased fashion consciousness and the growing purchasing power of the Japanese consumer, Japan has become one of our most important and fastest growing fur markets.

Capitalizing on this growth, EMBA, working with FAS, began to upgrade its promotional efforts in Japan, emphasizing, as always, the superior quality of farm-raised American mink.

Prior to 1984, most promotional efforts centered on the printed media. The increasing competitiveness in this market called for bolder steps. EMBA's solution was to bring the "EMBA World Premiere Night," presented annually in Frankfurt, Germany, and acknowledged by Japan as the finest fur fashion show in the world. Four fashion shows were presented in Tokyo in April 1984, attended by more than 3,500 leading furriers, designers, brokers, and members of the news media.

The coverage the event received was tremendous and newspapers, magazines, and television spread the news of the superior quality of American mink, reaching most potential fur consumers in Japan.

While it is too early to gauge the slow impact of the shows, the publicity generated gave American mink a new level of prestige and recognition as a world leader in quality. EMBA and FAS intend to intensify promotion in 1985.

FLORIDA DEPARTMENT OF CITRUS

The Florida Department of Citrus conducts advertising and promotional programs in Europe and Japan. Branch advertising and promotional activities are conducted in Europe through the Three Party Program funded by the Department of Citrus, FAS, and cooperating merchandisers. Efforts in Japan are directed at commodity advertising and promotional programs utilizing funds from the Department of Citrus and FAS.

In a season marked by the most damaging freeze in this century, movement of fresh grapefruit to offshore markets posted the only increase of fresh citrus shipments from this State.

The export of 9.7 million cartons of Florida fresh grapefruit represented an increase of 1.6 percent over the same period a year ago, while total movement to domestic and Canadian markets fell below last year's.

Japan continued as the largest customer for Florida grapefruit with 6.2 million cartons, but that was down by 5.4 percent from last year's 6.5 million cartons. This marked decrease was affected by a combination of problems involving uncertainty about the use of fresh fruit fumigation, the questionable quality of fruit subjected to cold treatment, and the shifting in the currency exchange. Had it not been for a strong promotional program, this decrease might have been even greater.

The increase in offshore shipments was attributed to European markets, primarily in France, Germany, and the Netherlands. Shipments to Europe reached 3.5 million cartons of fresh grapefruit—up by 16 percent from 3 million cartons a year earlier—thanks to advertising and promotion programs supported by FAS.

HOLSTEIN-FRIESIAN ASSOCIATION OF AMERICA

Demand for U.S. Holstein genetics continues to be strong in numerous countries, and new markets are being developed with the cooperation of FAS.

- *Venezuela*—The Association participated in a dairy survey mission to determine the status of the Venezuelan industry. Later, Venezuelan decision makers had a U.S. tour to witness the adaptability and productivity of our Holsteins. Further study prompted the establishment of a pioneering technical assistance agreement with the Venezuelan government to develop the local dairy industry.

The results are encouraging, with the importation of almost 5 thousand head of U.S. Holsteins valued at over $7 million—250 percent more than in 1983.

- *Mexico*—Demand for U.S. Holsteins has increased dramatically. Over 3.5 thousand head ($3.3 million) were imported, a 250-percent increase from 1983.
- *Colombia*—This country continues to be a viable market for U.S. Holsteins—over one thousand head were imported ($1.6 million). The Association also provided Colombia with technical experts in dairy cattle evaluation.
- *Guatemala*—The Association presented technical seminars in Guatemala on dairy cattle nutrition and U.S. Holsteins. This country—a dormant market for several years—opened its doors to 80 head of U.S. Holsteins.
- *Tunisia*—Five hundred U.S. Holsteins were imported, completing the first large shipment of its kind to North Africa in a number of years.
- *Saudi Arabia*—This country continues to be a good customer. The Association participated in "Saudi Agriculture 84," the largest agricultural trade fair in Saudi Arabia. Over one thousand head of U.S. Holsteins were imported ($1.8 million).
- *South Korea*—The Association's presence in Korea has been instrumental in maintaining U.S. Holstein credibility during a turbulent period for dairy cattle imports. The U.S. continues to be regarded as a dependable supplier of high-quality Holstein genetics. There were over three thousand head imported at a value of $4.2 million.

LEATHER INDUSTRIES OF AMERICA

The U.S. tanner has found an eroding domestic market for his production and must pursue the overseas manufacturers that are exporting to the U.S. Surging imports, especially of nonrubber footwear, have caused declining production in all segments of the domestic leather products sector. The value of nonrubber footwear imports from Brazil increased over 50 percent between 1982 and 1983; the 1984 figures increased by one-third.

- *Brazil*—The Tanners' Council of America initiated bold moves in foreign markets. In 1983, the Council sent a three-man fact-finding mission to Franca, the men's shoe manufacturing center in Brazil. This fact-finding trip and a follow-up visit by the Council's president confirmed there is a good market for U.S. leather in Franca, as well as a limited opportunity in the Novo Hamburgo area. To assist its members, the Council prepared a report summarizing recent trade, customs requirements, and methods of financing.
- *Korea*—Korea is the second largest exporter of nonrubber footwear to the U.S., and competes strongly in the leather garment and goods market. Thanks to the efforts of FAS offices in Seoul, a two-day leather show, in which the Council participated, attracted over 300 prospective buyers. Orders were written and agents located.
- *Taiwan*—Prior to the opening of the Council's leather exhibition in Taipei, Taiwan—which drew over 250 potential buyers—a delegation visited with Republic of China government officials and trade association leaders. The Council also participated in the International Leather Fair in Hong Kong and a very popular International Leather Show in Singapore.

Among comments made by participating companies: Many contacts developed ... sold more than sufficient leather to pay for trip expenses and still have additional order pending ... found agents and established sales arrangements in other countries ... will expand Asian marketing efforts with penetration gained from this trip.

NATIONAL FOREST PRODUCTS ASSOCIATION

U.S. wood product industry activities in the Pacific Rim have expanded markets for U.S. hardwood products. Despite the strong dollar, U.S. hardwood exports during January-August 1984, compared to the same months in 1983, made major gains in Taiwan (92 percent), Japan (76), Korea (60), Singapore (283), and China (16). U.S. hardwood exports to these five countries totaled $75 million during the first eight months of 1984, an 85-percent increase over 1983.

The U.S. industry seized the opportunity to increase exports to this region provided by the disruption of hardwood log supplies from the traditional South East Asian suppliers. Market development activities such as trade missions, trade shows, publications, and personal contacts were expanded and have been effective in introducing Pacific Rim importers to American hardwoods. The outlook for continued growth in U.S. hardwood exports to this region is bright. Consequently, the industry will target even larger resources to this market in the years to come.

The Inter-American housing conference in Seattle, Washington, in September provided housing officials of 20 Latin American and Caribbean countries the opportunity to learn of the advantages of U.S.-type wood frame construction systems.

The U.S. industry recognized that a potentially large long-term export opportunity existed in this region if traditional prejudices against wood housing could be overcome and a solution to their trade financial problems was found. This region as a whole has a housing deficit approaching five million units a year.

The conference, sponsored in part through the FAS Cooperator Program by the American Plywood Association and the Southern Forest Products Association, was organized to demonstrate to these countries the cost and structural advantages of U.S.-supplied forest products for wood frame housing.

An economical wood-frame house was constructed in the lobby of a hotel by unskilled, Spanish-speaking laborers to demonstrate the ease of construction. To overcome the region's bias against wood frame housing, a stucco facade was applied to the house, reproducing the look of the masonry finish commonly used in this region.

Ten of the 20 country delegations in attendance requested feasibility studies to determine the cost effectiveness of wood frame housing for their countries. Through the FAS Cooperator Marketing Program, activities have been scheduled for fiscal '85 to provide support and follow-ups to build upon the progress generated by the Conference.

U.S. softwood lumber sales to Jamaica by 1980 had fallen to less than $1 million. In a bid to regain this market, the Commodity Credit Corporation's (CCC) GSM-102 Export Credit Program was made available for solid wood products. U.S. softwood lumber sales have subsequently grown to an average of $8 million per year.

In 1984, almost $9 million in CCC credit was utilized by Jamaica to import softwood lumber. In order to build upon the progress generated by the use of export credits, the wood products industry has undertaken a program of market development activities such as publications, seminars, and product promotion. The combination of export credits and market development activities has enabled softwood lumber exports to continue to grow, despite the strong U.S. dollar.

In 1983, the Forest Product Division initiated instructions for Forest Products annual reports prepared by agricultural counselors and attaches in 26 countries. During fiscal 1984, these reports were formalized as part of the FAS reporting system. The reports provide basic statistics on production, consumption, and trade in major exporting countries and in major markets plus firsthand observations by agricultural attaches on current developments in the forest products sectors of these countries.

This information is proving useful for planning and developing marketing activities by the U.S. forest products industry. This is the first time that comprehensive and timely individual country reports are available to the forest products industry and to the public.

During fiscal 1984, the Analysis Section of the Forest Products Division provided critical data and timely information to the forest products industry, resulting in clearer identification of market opportunities for U.S. exports. The first-time-ever foreign agricultural circular on forest products included U.S. export data by product and by country of destination, summaries of the most recent agricultural attache reports from 26 countries, and information on current developments in the forest products trade worldwide.

The series began with a 1983 annual report issued in February 1984 and was followed by two quarterly reports in May and August. The circulars will continue to be published quarterly and have been well received by the U.S. forest products industry.

NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

In May of 1983, NASDA and FAS sponsored the first

National Food and Agriculture Exposition in Atlanta. The show's "export only" concept attracted 414 U.S. exhibitions and 1,100 foreign buyers from 76 countries. Estimated export sales resulting from the three day event totaled more than $190 million.

The second biennial NASDA Exposition is scheduled for April 22-24, 1985, in Kansas City, Missouri's ultramodern H. Roe Bartle Hall. The expected 1,500 foreign buyers and more than 500 exhibitors will have an opportunity to learn by attending seminars on international trade topics, and make more contacts at a gala opening night reception.

The third National Food and Agriculture Exposition is set for April 1-3, 1987 in Seattle.

NATIONAL PEANUT COUNCIL

- *France*—In cooperation with the peanut brand leader, the Council conducted a campaign for dry roasted peanuts. This product, which is new to the French market, is produced exclusively from U.S. runner peanuts for middle to upper-income consumers.

Through media advertising, trade press, in-store displays and sampling and consumer promotion, the tonnage purchased increased by one-third. The company gained a market share of 40 percent of total dry roasted business without any decline in salted nut sales.

- *Spain*—In a market that has traditionally been characterized by very small roasters and bulk sales at the consumer level, the Council is cooperating with a peanut processor which has achieved nationwide distribution for its packaged, branded products. The company's imports of U.S. peanuts increased 30 percent during 1984 as a result of a cooperative promotional campaign which featured advertising and in-store sampling and promotional materials. The increased purchases of U.S. peanuts by the third party cooperator came during a period when the total U.S. share of the Spanish market decreased because of the strength of the dollar.

- *Holland*—A unique promotional campaign was developed for the Dutch market. The market leader, a quality conscious manufacturer, conducted an extensive advertising and promotional campaign which emphasized the use of U.S. runner peanuts. While other processors were sacrificing quality by using other origins or blending various origins, the third party cooperator in Holland utilized a quality theme in trade and consumer press advertising, on-pack consumer promotion, in-store displays, and promotion to the trade.

Packaging featured a U.S. runner quality seal designed for the Council. As a result of the cooperative efforts, the manufacturer increased tonnage and its market share in a market environment threatened by cheaper and inferior products.

THE NATIONAL POTATO PROMOTION BOARD

U.S. exports of frozen french fries to Japan have increased from about 15 thousand metric tons ($8 million) in 1978 to 39 thousand metric tons ($29 million) in 1983. The U.S. share of the Japanese french fry market has grown from 28 to 48 percent.

The Potato Board conducts a comprehensive promotion program to develop more retail market and draw customers. Activities include trade and consumer advertising, cooking classes, an exhibition at the Harumi Institutional Food Show, and food demonstrations in supermarkets. One U.S. Processor predicts sales to Japan could double in five years.

A new market for U.S. tablestock potatoes is opening in Singapore and Hong Kong. American baked potatoes are becoming popular in restaurants and hotels. The Board started a program in 1984 to encourage chefs to use only U.S. baking potatoes in cooking seminars. Recipes, cooking techniques, and desired quality in a potato were discussed in slide presentations.

The Board also participated with other U.S. commodity groups in the "Taste of America" promotion at the Sheraton Hotel in Hong Kong.

Despite setbacks caused by the world recession, U.S. sales of seed potatoes to Latin America are increasing. A major accomplishment in 1984 was the first sales of seed potatoes to Jamaica—a direct result of the Latin American Seed Potato Seminar in Florida sponsored by the Board. More than 15 influential Latin American growers, importers, and government officials viewed and evaluated U.S. seed potato test plots.

NORTHWEST HORTICULTURAL COUNCIL

Northwest Cherry Growers

Shipments of Northwest cherries to Japan during the 1984 season saw an increase of 25.9 percent over the 1983 marketing year. This was good news in that the Northwest cherry crop was down approximately one-third in tonnage from the 1983 marketing year.

The promotion of Northwest cherries in Japan definitely accounted for the growth in this market. This year's strategy included selling cherries in market areas outside the traditional core area of Tokyo, Kyoto, and Osaka. Also, much effort was put forth to get retailers to extend their marketing season through July and into August. Both strategies contributed to increasing sales in this lower-supply marketing year.

Besides the increase in sales, the other good news is that it was a profitable year for participants. In general, growers, shippers, importers, wholesalers, and retailers all made money in the 1984 Japanese/USA sweet cherry deal. This, of course, is the key to future market development.

The Council looks forward to 1985 with great anticipation, and believes that with vigorous promotion, sales to Japan will break previous records.

Washington Apple Commission

The Commission, using its own funds as well as FAS funds, cooperated with 16-outlet supermarket chains in the northern part of England in an intensive advertising and promotional campaign featuring Washington State apples. Advertisements were placed in newspapers, on billboards, and broadcast over the radio. Exports of Washington apples to the United Kingdom rose from approximately 170 thousand cases in 1983 to 230 thousand in 1984, valued at $1.2 million.

The United Kingdom could become a million-case market for U.S. apples with persistent promotion by the Apple Commission, supermarket chains, and exporters and importers.

The Apple Commission and FAS have spent considerable sums for advertising (mainly television) and promotional activities in Hong Kong. The result: increases in exports of $1.8 million since 1983.

Maximum use was made of point-of-sale materials in almost every wholesale and retail outlet.

Promotional activities included the introduction of "the Apple Ambassador"—a young person in an apple suit. Besides producing good public relations for Washington State apples, "the Apple Ambassador" is creating an awareness of Washington State apples among the future consumers of Washington's apples.

NATIONAL RENDERERS ASSOCIATION (NRA)

- *Korea*—As a result of activities to create interest and provide technical assistance relative to feed grade animal fat (FGAF), Korea's FGAF usage is expected to increase 35 percent over 1983, based on total consumption of some 5 thousand metric tons the first six months of 1984. This figure compares with nearly 9 thousand metric tons consumed in the entire 1983 marketing year. At present, 31 of 74 feed millers' facilities are equipped to handle the addition of fat to feed; only a dozen had this capability last year.

NRA conducted a program of seminars and demonstrations for the Korean baking and food processing industries in the past couple of years that led to the introduction of edible tallow in processed foods. This year for the first time, edible tallow was imported from the U.S. for snack and instant noodle industries. In the first eight months of 1984, 2.5 thousand metric tons of U.S. edible tallow were shipped to Korea.

- *Iraq*—The Iraq State Organization for Animal Production changed its import specifications to permit bids by U.S. suppliers of a rendered by-product based feed concentrate.

With the aid of NRA industry members, the sale of about 26.6 thousand metric tons of animal protein concentrate feed for layers and broilers was finalized for the purchase of protein concentrates of other than vegetable origin.

That sale alone represents a tenth of all annual exports of rendered by-products from the U.S. It is truly a value-added product in that it is a "full feed" concentrate.

- *Pakistan*—A major competitor of U.S. rendered products is Malaysian palm oil. This year, NRA/FAS efforts successfully blocked a proposal by the palm oil industry to the Government of Pakistan that would have restructured import duties in that country. This timely action maintained an estimated 50 thousand tons each year in U.S. tallow sales to Pakistan with a dollar value of approximately $25 million.

Activities geared to educate school children and the general public on the advantages of personal hygiene through regular use of laundry and toilet soaps have successfully increased per capita use of soap, thereby increasing Pakistani imports of tallow. In the past year, NRA hosted a team of executives from the Pakistani soap and feed industry, introducing them to the various uses of fat.

Pakistan's imports of U.S. tallow increased from 44 thousand metric tons in 1978 to approximately 83 thousand metric tons in 1983. NRA market development activities have preserved a favorable duty structure and opened doors for increased sales to the soap and feed industries. Imports of U.S. tallow in 1984 are projected at over 100 thousand metric tons.

- *Colombia/Mexico*—NRA's second year of activity in Mexico and Colombia focused on education. Activities were designed and implemented to develop process/user awareness of the value of feed grade animal fat and protein meals in feed formulations, and to relax governmental constraints to import.

As a result of seminars, workshops and trade calls in 1984, the Colombian Ministry of Agriculture made a commitment to FEDERAL (Feed Manufacturers Federation) authorizing an initial importation of 10 thousand metric tons of meat-and-bone meal for the feed industry. The largest producer of feed in Colombia has already received shipment of its first 1.1 thousand metric tons of FGAF. An import license for another 1 thousand metric tons is expected to be approved by the Colombian Government shortly.

Mexico for the first time recently imported 13 thousand metric tons of tallow in one tender for one month's delivery. While this tender may not be a monthly event, it does represent an historic purchase by that country.

RICE COUNCIL FOR MARKET DEVELOPMENT

Changing people's eating habits by introducing a new food into a nation's diet are difficult and long term tasks. However, the benefits are substantial and usually long lasting.

In France, the Rice Council's programs have been responsible for increasing the home consumption of rice by over 50 percent between 1974 and 1983. The U.S. share rose from 17 percent to about 40 percent during the same period. Sales of parboiled rice, primarily from the U.S., have increased three-fold since 1974.

Rice's success, particularly that of U.S. rice, came during a period of low population growth, currently less than 0.4 percent annually. Also, consumer expenditure for food has declined and the percentage of the average French consumer's food budget spent for all cereals remains constant.

U.S. rice exports to France have tripled since 1974 and potential exists for continued growth. However, Rice Council programs must become even more effective, considering the improved quality offered by competing countries at much lower prices.

The Rice Council program in France combines a consistent, well executed public information effort and brand incentive advertising activity in conjunction with local marketers of U.S. rice, stressing the high quality of U.S. rice. A close relationship with newspaper and magazine food editors results in their relying on the Council for recipes, photographs, and story ideas; U.S. rice is highlighted in articles and recipes.

France wants food and recipes from other countries. In 1983, the Rice Council sponsored a visit by five magazine food editors to the U.S. During 1984, every French editor in the delegation wrote at least one major story about U.S. rice, with recipes and color photographs.

SOUTHERN U.S. TRADE ASSOCIATION (SUSTA)

SUSTA participated in nearly 10 overseas food exhibits and developed two overseas trade missions for pecans and forest products. As a result of the participation in overseas shows, SUSTA firms made new contacts and later sales. Two popular products were a non-alcoholic malt product and candied fruit.

The most successful trade event was a Forest Products Sales Team which visited Hamburg, Germany, and London, England, in January. Six participating companies received orders totaling $196 thousand and projected sales during the following 12 months of $2.3 million. Members of this mission continue to work with SUSTA and several of these firms are looking forward to joining another SUSTA trade mission to Italy and Spain in 1985.

SUNKIST GROWERS, INC.

Sunkist sales to Malaysia and Singapore increased by over $17 million during the past several years, from a level of 92 cartons valued at $537 thousand during 1977-78 to an estimated 2.1 million cartons, valued at nearly $18.2 million. This has been accomplished with the assistance of FAS despite stiff competition from Australia and Israel.

Singapore and Malaysia have become excellent markets for Sunkist fresh citrus. The bulk of growth in shipments to this region during the past several years has occurred in Malaysia. Information on shipments is presented for both markets.

During 1979, the government of Malaysia lowered its customs duty for fresh fruits by 50 percent. The duty of fresh oranges decreased from a level of M$1322.77 per ton to M$666.40 per ton.

With the assistance of market development funds, Sunkist commissioned consumer and trade research studies to analyze the Malay produce market. The consumer survey provided information on orange consumption, purchasing patterns, and awareness of imported oranges. The trade survey analyzed the structure of the trade, distribution channels, and the trade's interest in imported oranges.

Based on the results of these studies, Sunkist developed a marketing program that promoted sales and consumption of Sunkist oranges in Malaysia via outdoor billboards. The message was that Sunkist oranges are natural, healthy, and nutritious.

Sunkist merchandisers contacted all importers, wholesalers, and retailers in the leading market centers, distributing point-of-sale materials. Other activities included promotion with all major supermarkets in Malaysia in cooperation with the Agricultural Attache in Kula Lumpur and the Regional Trade Officer in Singapore.

U.S. BEEF BREEDS COUNCIL

More and more semen exports are taking over as the main force of beef cattle exports. About 5 thousand units of semen have been processed for export in the past year. This means an estimated dollar value (at $30 per unit) for $150 thousand for Herefords only. Other breeds have comparable records.

For the first time since the 1950's, the Council was able to meet all the health test requirements, and 60 head of four different top beef breeds were shipped to Australia.

In 1984, a record 26 thousand head of live cattle were shipped, reflecting the success of the FAS/cooperator market development program. At $1 thousand per head, the export value was $26 million—a conservative estimate.

USA DRY PEA AND LENTIL COUNCIL

Although India is the world's largest producer and consumer of pulses, production in recent years has failed to keep pace with increasing consumption. While India produces a variety of pulses, U.S. peas were not well known and exports to India in 1975/79 averaged only 1.5 thousand metric tons annually.

In 1978, the Council began contacting Indian traders to determine if there was a viable market for U.S. quality green peas at prices that would yield a reasonable return for U.S. growers. Samples and other technical and marketing services were provided and shipments increased.

In March of 1984, a delegation of U.S. processors and exporters traveled to India at their expense to participate in Council-sponsored marketing seminars. These efforts helped push 1983/84 pea exports to India over 20 thousand ($5.9 million), making India the largest overseas market for U.S. peas.

U.S. FEED GRAINS COUNCIL (USFGC)

The U.S. Feed Grains Council was founded in 1960 by producer groups and agribusinesses to promote the export of U.S. corn, sorghum, barley, and co-products.

In June, officers of the Council's Board of Directors, together with the Council President and other staff members, traveled to Egypt, Algeria, Turkey, and Nigeria to identify areas for future U.S. feed grains export growth.

After meetings with government and private officials in Algeria, the officers concluded that the country's high per capita income, together with the government's resolve to increase domestic egg and meat production, could result in a rise of Algeria's imports of U.S. feed grains to 1.2 million metric tons by 1989. If realized, this would be almost double the level of feed grains imported by Algeria from all suppliers.

To assist Algeria in reaching this import level, and to obtain information on the country's market potential, the Council sent a survey team to Algeria in September. The team studied the country's beef and poultry industries, with an eye toward making recommendations for promotional activities.

The Council sponsored a visit to Japan and Taiwan by representatives of the U.S. barley industry. These countries, which already are important markets for U.S. barley. Japanese and Taiwanese government and industry officials made it clear that there is room for further growth in purchases of U.S. barley.

The team found that better trade servicing and quality monitoring will be needed in Taiwan.

In Japan, the team concluded that more competitive prices and development of relations with government and industry might enable the U.S. to make a run at the No. 1 supplier position now held by Canada. The team's visit to Japan already has been credited with helping to establish a new monthly record of U.S. barley sales to Japan, achieved when the Japanese purchased more than 100 thousand metric tons of U.S. barley during the month of June.

Visits to breweries in both countries indicated that there are opportunities for exports of U.S.-produced malt and malting barley. Members of the trade team corrected the perception in both Japan and Taiwan that the U.S. is not interested or capable of exporting these products to Asia.

The scarcity of cost-efficient feeding rations has deterred efficient duck raising in Taiwan, according to U.S. Feed Grains Council staff who studied the country's duck industry. Farms have traditionally fed their 30 million birds rations ranging from low-grade rice to expensive imported fish meal. This has meant that Taiwanese ducks have been getting much more protein than they need, and has made duck feeding excessively expensive for Taiwanese farmers. The Council and a nutritionist from Taiwan University demonstrated that ducks could be fed more efficiently on grain-based rations.

The result is that 70 percent of the country's meat ducks and 5 percent of the laying ducks are now being fed a corn-soy pelletized feed that is creating demand for additional 200 thousand metric tons of feed grains. Of that amount, approximately 150 thousand are coming from the U.S.

The Council's efforts to promote beef production is Southeast Asia continue to center on the development of a large beef feedlot in Indonesia. This year, a feedlot—built with technical advice from the Council—was completed with a capacity of 4 thousand head.

The Council is now assisting the local industry in the development and improvement of silage-making processes through demonstrations by the Council staff and consultants. The feedlot is expected to use 10 thousand metric tons of feed grains a year, and is likely to serve as a model for future feedlots throughout Southeast Asia and the People's Republic of China.

U.S. MEAT EXPORT FEDERATION (MEF)

The government of Singapore announced that it would phase out domestic pork production because of the high cost of treating hog farm waste. MEF's Singapore office went to work—alerting U.S. pork suppliers of the new and profitable market opportunity and supplying the government with information about U.S. pork production and technology.

MEF exchanged teams between the U.S. and Singapore, hosted a "trade-only" seminar and participated in a mass media consumer advertising campaign for frozen pork. MEF also participated in the Food and Hotel Asia Show—open to executives and professions in the food, catering, and hotel industries—which attracted 950 exhibitors from 28 countries. More than 19 thousand attended, 25 percent from outside Singapore.

MEF provided cooked samples of pork and beef, and distributed lists to MEF members to prospective meat buyers. Orders for U.S. meats were received and filled by participants in the show, as MEF worked to emphasize the quality of U.S. pork and beef.

After featuring U.S. beef in an MEF-sponsored promotion, Seiyu Department Stores, one of Japan's leading supermarket chains with more than 130 outlets, decided to carry U.S. beef on a permanent basis.

Seiyu and Nippon Ham launched a six month in-store promotion to overcome consumer resistance to frozen beef and to promote the sale of "block" meat, as opposed to traditional packages of thin-sliced meat.

To prepare Seiyu's meat managers for the promotion, the Egami Cooking School, one of the most famous and prestigious in Japan, instructed Seiyu employees on the preparation of U.S. meats. Managers prepared menu cards with cooking information for the Japanese homemaker. Cards were included with each packet of meat specially prepared for the Seiyu shopper and dishes prepared in the Egami Cooking Class were featured on national television.

The Sieyu promotion was supported by in-store promotional material and newspaper inserts. Special sales groups went from store to store to conduct product demonstrations, prepare meat samples, and talk to homemakers. During January-April, meats sales increased 15 to 30 percent, and because of overwhelming consumer demand, Seiyu plans to sell shoulder clod and short plate beef every day.

More than 58 thousand consumers visited the Stamina Food Stores this spring during a nine day U.S. pork and beef variety meat promotion. Stamina, the largest user of U.S. variety meats in Japan, realized a 13 percent increase in variety meat sales as store employees and consumers gained a better understanding of the nutritional value of American variety meats.

To help consumers understand how to prepare variety meats, special recipes were distributed, along with calendars, containing cooking suggestions and nutritional information.

Stamina also developed newspaper inserts and other give-away materials to attract customers. At each store, a cassette tape ran continuously, giving recipe ideas and nutritional information. Because of the promotion's success, Stamina will conduct another promotion to increase retail sales by 18 percent.

More than one thousand tradespeople in Europe, the Middle East, and Africa are learning about the U.S. meat industry through an MEF industry newsletter published by the MEF London office. The newsletter keeps importers, retailers, butchers, and government officials in touch with the U.S. meat industry and provides a forum for MEF to follow up on new trade contacts.

MEF was instrumental in seeing that the U.S. was exempt from the "Clawback Tax" imposed by the United Kingdom, saving U.S. exporters roughly 18 cents per pound of meat being shipped into the U.K. The Clawback scheme refers to a tax imposed on meat products exported out of the U.K. The tax is designed to reimburse the U.K. government for premiums paid to the U.K. meat producers. Much U.S. meat imported by the U.K. is re-exported to other European Community countries. Although the product originated outside the U.K., U.S. meat would still have been subject to the tax.

After studying the proposed tax, MEF contacted the International Meat Traders Association and the Ministry of Agriculture to argue that products not originating in the U.K. should not be subject to the tax. A week later, the U.K. announced that importers of Third Country (non-EC) meat would not have to pay the Clawback Tax.

Despite worldwide economic problems, tourists still flock to popular Caribbean stores, and thanks to an MEF sponsored buyer's mission to the U.S. this year, many will be eating high quality U.S. beef and pork.

An influential buyer in Barbados began purchasing "no roll" U.S. beef for his hotel customers. Although generally pleased with the quality of the product he was receiving, the buyer switched to Australian and Canadian suppliers because of the sales pressure these competitors applied.

MEF invited the Barbados importer to the U.S. for a week long tour of the American packing plants. The buyer "re-converted" to U.S. beef and expressed interest in purchasing U.S. pork. MEF members have since received product specifications from the buyer and have submitted bids.

U.S. beef tongue sales increased at three of Belgium's leading retail stores following in-store promotions this year.

MEF/Hamburg coordinated an in-store campaign with the 142 BB-INNO-BM stores, 55 Sarma-Penney, Ltd. outlets, and the Makro chains of six institutional wholesale stores. U.S. beef tongues were identified with MEF's U.S. meat logo, and advertisements were developed for company publications.

GS-Inno-BM distributed 4.6 million copies of its in-store featuring an MEF-sponsored advertisement for U.S. beef tongues. The Makro store published 50 thousand copies of its in-store publication which carried a similar ad. Makro registered a 32 percent increased in sales from 3.2 metric tons to 10 metric tons. The Sarma-Penney stores sold 23 thousand pounds of U.S. tongues in three days. A second promotion at the Sarma-Penney stores doubled sales to 47 thousand pounds.

USA POULTRY & EGG EXPORT COUNCIL

Among the poultry products imported by Japan, the volume and market share of ducks are mounting steadily.

In 1976, U.S. duck sales came to 21 metric tons ($19 thousand). In the first 7 months of 1984, volume was over 480 tons, up 127 percent from the 1983 period, and our market share zoomed from .03 percent to 40 percent. Market development gets the credit—demonstrations and samplings of western and Japanese dishes and traditional Chinese fare.

Meantime, U.S. duck packers have been refining their products to suit Japanese palates, including large ducks and deboned breast meat. France and Rumania also have their eyes on the Japanese duck market. Added promotion is crucial to keeping the U.S. in the lead.

Singapore's hotels and restaurants are also high on frozen U.S. ducks. The Council and FAS combined forces to push our ducks in supermarkets, at food fairs, and through cooking demonstrations and competitions.

In the first 5 months of 1984, sales of frozen U.S. duck to Singapore shot up by 160 percent to around 240 metric tons from only 90 in the 1983 period.

The Council's program in South Africa began in 1982. There, turkey was the target. The Council won again. Despite France's heavily subsized product, the U.S. industry outsold the French by two to one by the end of 1983. The Council upped its budget for promotion, hired a consultant to develop recipes, conducted taste testing sessions, and courted top importers.

Since 1983, South Africa's imports from the U.S. have catapulted from virtually nothing to over $2 million.

Chicken nuggets from the U.S. got the nod from shoppers in Singapore. After just 2 weeks of promotion with two local food chain stores, sales of U.S. poultry products—not only chicken nuggets—were up by a fifth. The other big items included chicken wings, thighs, drumsticks, and duck legs.

Food samplings at supermarkets: black sauce braised duck, dry curried duck, rendang chicken legs, sweet and sour chicken drumsticks, soya sauce chicken wings, and nuggets.

U.S. WHEAT ASSOCIATES (USW)

USW's market development activities are designed for unique opportunities that vary from country to country. Activities include trade servicing, technical assistance, market analysis, and consumer promotion.

The Soviet Union was one of several countries concerned about press reports of contamination of wheat and other commodities treated with the fumigant ethelyne diobromide. USW helped avoid disruption of Soviet purchases by organizing a timely program for Soviet specialists to talk with specialists at several U.S. locations.

The result: a working arrangement for grain inspection that satisfied the needs and requirements placed on Soviet grain importers by other Soviet agencies and officials.

USW's fast-food team in 1983 led to the 1984 opening of the first modern fast-food chain outlet in the People's Republic of China. Twenty more outlets featuring wheat-based products plan openings in Beijing.

Day-to-day assistance is provided to the U.S.-China Bakery in China to develop plans for six additional wheat-based product production lines. The new lines, used as a model, will encourage development of similar wheat product lines throughout the country. The donation of special U.S. wheat flour for noodles to the U.S.-China Instant Noodle Plant stimulated the Shanghai Food Bureau to request the central government to purchase U.S. wheat.

USW's milling consultant provided flour milling technical advice to 140 chief millers and mill managers from 11 provinces. The advice was designed to show how China's mills can be renovated to produce higher quality flour. Renovated mills will require 17-percent additional wheat. The finer flour will enable China to provide a wider variety of better quality wheat food for its one billion consumers, and the higher quality bran byproduct will go into feed channels.

To alleviate Japan's concern about low amylogram values (indications of bread making quality of wheat) in shipments of 1983 white wheat and to discuss ways to procure sound wheat, a high level Japanese Government/industry team—led by a USW/Tokyo staff member—traveled to the U.S. to meet with top officials of the wheat industry and USDA officials.

During their 10-day stay, the team observed firsthand the seriousness of problem and talked with members of the trade, USDA, and wheat producers about alternative solutions. This travel was vital in preventing a shift to Australia of some 40 to 50 thousand metric tons of U.S. white wheat with an estimated FOB value of five to seven million dollars.

Removal of many government regulations of concern to Korea's million industry, in September 1983, gave Korean millers and bakers a greater voice in selecting the quality and sources of wheat imports, and greater motivation to diversify and improve end-products. To capitalize on this situation, USW invited technical consultants to Korea to assist the milling and baking industries in upgrading quality.

The consultants—specializing in baking, milling, premix, and biscuit—spent 33 days lecturing and working with several hundred milling and baking technicians. With the 1986 Asian Games and 1988 Summer Olympics scheduled for Seoul, USW expects increases in consumption of all types of wheat flour foods.

As part of USW's program to upgrade product quality, 12 milling technicians were sponsored at a two-week milling course at the International Grains Program facility at Kansas State University. This first

Korean language course at the facility included one member from all but one of Korea's 12 million companies, as well as one from the Millers Association. The long-range impact of these activities is estimated at 50 thousand metric tons per year of additional U.S. wheat imports.

USW held a one-week milling seminar in Israel presented by two milling specialists from Kansas State University to provide information to make millers more efficient users of Hard Red Winter and familiarize them with its excellent milling characteristics.

Twenty-four wheat millers and 10 observers attended the course, including representatives of the government's wheat buying agency and their quality control people. In past years, Israel has been a market for 400 to 625 thousand tons of wheat, almost all supplied by the U.S.

Although substantial increases in U.S. exports to Israel are unlikely, purchases of Canadian wheat have been proposed; this should help maintain U.S. sales.

Since 1964, USW has played an instrumental role in developing the baking industry of Latin America through technical assistance baking programs to introduce new and improved wheat-based products.

WESTERN UNITED STATES AGRICULTURAL TRADE ASSOCIATION (WUSATA)

A two-week "Wild West Bonanza" promotion of foods from the Western U.S. was held in seven stores of a major supermarket chain in Malaysia. The supermarket company purchased more than $150 thousand worth of products for the promotion, and follow-up orders were placed for several products after strong consumer interest was shown during the promotion.

Fresh fruits, ice cream, canned fruits and vegetables, and cake mixes were especially popular. Sales volume in some of the supermarkets increased by 20 percent.

WUSATA worked with a new-to-export company to introduce its products to buyers in Hong Kong, Singapore, and Malaysia. The company completed two ice cream sales worth $40 thousand, and long-term arrangements are underway to have foreign buyers handle these products on a continuing basis.

A dried fruit packer develped a new package size for the snack food trade. WUSATA helped the company to introduce the product at food shows in Japan, Korea, England, and France.

WUSATA worked with JETRO to conduct evaluations of processed food products in Tokyo and Los Angeles. Representatives of Japan's food distribution industry advised Western U.S. food companies on the strengths and weaknesses of their products for the Japanese market. Product modifications and sales will result from evaluations of 80 products from 20 suppliers.

WUSATA and the National Hay Association sponsored a sales mission of alfalfa producers and exporters to Japan and Korea. Members of the groups sold over two thousand tons of alfalfa hay cubes directly as a result of this mission. Additional sales are anticipated.

WUSATA was contacted by a Japanese importer looking for new meat snack foods. After a Western U.S. meat company produced samples of these products, they were delivered to the importer, along with ingredient and price information. Based upon favorable evaluation of the sample, the importer is arranging for their first purchase of U.S. snack foods.

WUSATA continued to work with management of a lamb packing plant in Western Canada who are interested in processing more slaughter lambs. New lamb production areas in the Western U.S. were identified as potential supply sources. Consequently, sales of slaughter lambs from the Western U.S. to this plant increased 50 percent over 1983 levels, exceeding 18 thousand animals worth more than $1 million.

WUSATA organized and led a sales mission of Western U.S. sheep producers to Mexico. Meetings were held with importers, packers, retailers, producers, and government officials to ascertain their interest in purchasing breeding and slaughter sheep from this region.

Orders were received for several truck loads of packer ewes for feeding and slaughter. Several producers also accepted the Association's invitation to visit the Western U.S. to purchase breeding rams.

WINE INSTITUTE

This was a trying year for California wine exporters because of the dollar's strength.

Two wine shows held in Osaka and Tokyo drew over 1.5 thousand visitors and resulted in an increase in wine sales of almost $5 million. A 50-percent increase in sales can be directly attributed to this promotion. Attention to our wines has led to the formation of the California Wine Association of Japan, which includes four members of DIET (the Japanese governing body).

Nine California wine events were held in Canadian provinces, in addition to the most successful California Wine Festival staged annually in British Columbia where wines were purchased by credit card for the first time. With the support of the Agricultural Counselor in Ottawa, wine events keep California wines in the news, and have convinced the Liquor Control Boards to extend listings of these products. Also, some provincial governments are easing trade barriers.

Efforts by the Agricultural Trade Office in London kept sales flowing, albeit more slowly than in the past. However, with 1.2 million gallons sold in that market, California wines are a factor in the marketplace.

Other areas where wine sales continue to burgeon are Singapore and Hong Kong. Much of the credit goes to the U.S. Agricultural Counselors in those areas.

MEMBERS

American Angus Association
American Brahman Breeders Association
American Hereford Association
American International Charolais Association
American Polled Hereford Association
American Quarter Horse Association
American Seed Trade Association, Inc.
American Soybean Association
Appaloosa Horse Club Inc.
Beefmaster Breeders International
Brown Swiss Cattle Breeders Associations, Inc.
California Almond Growers Exchange
California Avocado Commission
California Cling Peach Advisory Board
California Kiwifruit Commission
California Pistachio Commission
California Raisin Advisory Board
California Table Grape Commission
Cotton Council International
Dairy Society International
Eastern U.S. Agricultural & Food Export Council, Inc.
EMBA Mink Breeders Association
Florida Department of Citrus
Florida Nurserymen and Growers Association, Inc.

Great Lakes Mink Association
Holstein-Friesian Association of America
International Brangus Breeders Association
Leather Industries of America
Mid America International Agri-Trade Council
Millers' National Federation
Mohair Council of America
National Association of Animal Breeders
National Association of State Departments of Agriculture
National Association of Swine Records
National Cottonseed Products Association
National Forest Products Association
National Peanut Council
National Pecan Marketing Council
National Potato Promotion Board
National Renderers Association, Inc.
National Sunflower Association
North American Blueberry Council
Northwest Horticultural Council
Ocean Spray Cranberries, Inc.
Papaya Administrative Committee
Protein Grain Products International
Puregold, Inc.
Rice Council for Market Development
Rio Del Mar Foods, Inc.
San Benito Orchards/Vineyards
Santa Gertrudis Breeders International
Seald-Sweet Growers, Inc.
Southeastern Poultry & Egg Association
Southern U.S. Trade Association
Sun-Diamond Growers of California
Sunkist Growers, Inc.
The National Hay Association, Inc.
Tobacco Associates, Inc.
USA Dry Pea & Lentil Council
U.S. Beef Breeds Council
U.S. Feed Grains Council
U.S. Malt Export Federation
U.S. Wheat Associates, Inc.
Western Growers Association
Western U.S. Agricultural Trade Association
Wine Institute

FEDERATION OF AMERICAN SOCIETIES FOR EXPERIMENTAL BIOLOGY

STATEMENT OF MALDEN C. NESHEIM, PH.D., PROFESSOR OF NUTRITION AND DIRECTOR OF DIVISION OF NUTRITION SCIENCES, CORNELL UNIVERSITY

Senator BURDICK. Our next witness is Malden Nesheim, professor of nutrition and director of the Division of Nutrition Sciences, Cornell University.

Welcome to the committee.

Dr. NESHEIM. Thank you very much, Mr. Chairman. I appreciate very much the opportunity to come before you today.

As you indicated, I am professor of nutrition at Cornell University, director of the Division of Nutritional Sciences that we have. I am also president-elect of the American Institute of Nutrition.

The American Institute of Nutrition is a constituent society of the Federation of American Societies of Experimental Biology, who I represent today in this testimony.

This federation is a federation of seven civic societies in the United States, which represents more than 28,000 basic biological science researchers in this country, and we appreciate the opportunity to comment on the subject of these hearings today.

I have submitted to the committee, Mr. Chairman, formal written testimony, and I would like to refer you to that for the particular position that we would like to make to you. I would like to highlight one or two remarks from that testimony.

First, I would like to say that we support the Competitive Grants Program that has been funded through CSRS. Their funding level, I understand, has been recommended at a level of at least $46 million, which we certainly will support.

I also want to commend this subcommittee for their support of the Competitive Grants Program in the past and we hope that we can have—and we would certainly support—your efforts to maintain and strengthen this program as part of the Agriculture Department's research program in the years ahead. So we certainly want to support the Competitive Grants Program.

As stated in our formal testimony, we want to oppose the proposal to terminate support for the animal welfare activity of the Animal and Plant Health Inspection Service.

And we wish to support the testimony of the Inter-Society Council for Biology and Medicine, of which the federation is a member and from which you are going to hear formal testimony a little bit later. So I will not dwell on that aspect of my testimony.

Senator, because of my specific interest in the area of human nutrition, I would like to call your attention to two or three items that are not necessarily in the formal part of my testimony, that are important to the federation, and also to the nutrition community in this country.

The competitive grants funding in human nutrition, which is part of this $46 million which is represented, is only $2 million for the 1986 appropriation. This represents only about 4.3 percent of the total competitive grant funds available through the CSRS during that fiscal year.

When the Competitive Grants Program was begun a few years ago, human nutrition competitive grants made up fully one-third of the funding of that program. And there has been a continual erosion of support for basic research dealing with aspects of human nutrition.

In view of the Department of Agriculture's impressive in-house commitment, the Agricultural Research Service commitment to human nutrition research, and in view of the Department's major role in Extension programs and public education in nutrition throughout the United States, and in view of the Department's extraordinary responsibility in terms of food programs and nutrition programs for the American public, a $2 million Competitive Grants Program supporting basic research in human nutrition is clearly insufficient and does not really reflect the Department's responsibilities and role.

So I would like to call for an increase in the funding for the human nutrition Competitive Grants Program.

Another aspect of support for basic research that has been carried out through the Department of Agriculture that has been eliminated in the most recent budget proposals by the administration is the Graduate Fellowship Program. Let me just mention a couple of things about that.

The Department has had authorization to support graduate training in basic agricultural sciences through a fellowship program for some time. Two years ago, funding for this fellowship program was initiated and the fellowship program was begun.

A competitive awarding of fellowships to various universities around the country has taken place, and we were encouraged to try to use these fellowships, which were a generous support for graduate study, to recruit the best and the brightest of the basic biological researchers to come into agriculture to provide the basic underpinning that we need for agricultural research.

That program was funded at a level of $5 million its first year. The next year it was funded at a level of $3 million, making it necessary to actually cut the stipends of those we had encouraged to come into the program; and for the next year, in midcourse of many of these graduate training programs, the program has been eliminated altogether.

I would certainly like to call for restoration of funds for the Graduate Fellowship Program in USDA.

Another program which is not specifically related to research, Mr. Chairman, but is one that is an important part of the whole program of research, which has been so important in the Department of Agriculture over the years, is the ability to translate research into actual use by people in this country.

The administration has proposed, in 1986, the elimination of the Expanded Food and Nutrition Education Program, a nutrition education program aimed at reaching low-income families with a nutrition education program throughout this country.

This is one of the longest ongoing Federal programs that reaches the low-income population that has been in place in this country. It has been an extremely effective nutrition education program. And I think the lack of continuation of this particular program would have an adverse effect on a large number of our nutrition education activities that go on through the Department of Agriculture and are cooperatively supported by the States. It would go beyond just the elimination of this particular program.

So, therefore, I would like to call for restoration of those fundings as part of the appropriation for the coming year.

Mr. Chairman, I do appreciate the opportunity to appear before you to put forth our thoughts on the need for competitive grants, for support of animal welfare legislation and inspection by the Federal Government, and for continued support of human nutrition research by the Department of Agriculture.

Thank you very much.

Senator BURDICK. Thank you.

If the responsibility for animal welfare were to be terminated, would the States, industry groups, humane societies, and individuals enforce regulations?

Dr. NESHEIM. Mr. Chairman, I think this would be an incredibly difficult responsibility to have diffused among all of those various organizations.

This society, the society that I represent, has a history going back to the early part of this century of supporting humane research with animals. We feel that to ensure that humane animal research is carried out needs to be a Federal responsibility.

If we are going to have both an atmosphere whereby responsible scientists can be expected to carry out animal research in a way that is fully in accord with all of the welfare regulations and rules and humane principles on which this research should be carried out, we also have to have uniform enforcement, uniform inspection of these facilities and of the program throughout the United States.

I think that a hodgepodge of inspection services coming through all of these individual areas would be a very difficult thing for the animal research community to live with.

Senator BURDICK. USDA doesn't seem to be doing a very good job of enforcement. Maybe we should try a new approach of some kind?

Dr. NESHEIM. Well, of course, the USDA—as the testimony of our colleagues from the Inter-Society for Biology and Medicine point out—has been underfunded in this program for some time, so that the number of inspectors that have been available and the time they can put toward inspection of animal facilities has been limited.

However, they have been out there. They have been inspecting animal facilities. They have identified those that need to have particular attention, and they have not been living up to the expectations of the law, and I think that having this national program and strengthening the national program, which we call for, would be extremely helpful in ensuring that we had a good, humane animal research program in this country.

I think the USDA can do it, and I think that we need to give them the support to do it.

Senator BURDICK. So it is your testimony that they haven't done it because they have been short of funds?

Dr. NESHEIM. That has certainly been one of the problems.

Senator BURDICK. In response to one of the questions asked on March 19 of this year, Administrator Hawkins said that each licensed facility is inspected 2.7 to 2.9 times per year.

I have information, however, that in 1983, in New York State, 48.7 percent of the sites were never inspected at all. Would you care to comment on that statement?

Dr. NESHEIM. In my department we have a fairly extensive animal research facility, so we do have contact with the State inspection service, and we have our own local inspectors who have helped enforce our own local regulations on campus, and we have USDA inspectors.

Our facilities have been inspected by USDA inspectors regularly as part of this program, and I think that we need to make sure that we have coverage of as many of the facilities that are doing research as we possibly can.

All of the States do not have uniform ways of carrying out their inspection responsibilities. New York State happens to have a reasonably good State inspection service which also looks at some of the animal welfare problems within the State.

But I think this is quite unusual and it is not common throughout the United States. We would be much happier—and it is easier for animal facilities to be able to deal with a single inspection service in looking at all of our responsibilities in this area, than it is to have multiple inspections upon us.

I think a Federal standard in this area is what is needed; and to enforce a Federal standard, I think we need to have Federal inspection.

Senator BURDICK. Thank you, gentlemen.

Dr. NESHEIM. Thank you.

[Dr. Nesheim's prepared statement follows:]

STATEMENT OF MALDEN C. NESHEIM

Mr. Chairman, members of the Subcommittee, my name is Malden Nesheim. I am Professor of Nutrition and Director of the Division of Nutrition Sciences at Cornell University. I appear before you today representing the Federation of American Societies for Experimental Biology (FASEB). The Federation's membership consists of seven learned scientific Societies representing 28,000 biological researchers drawn from every important research, educational and clinical center in the United States. As such, we take great interest in, and applaud the support for, basic research programs that are conducted by the Department of Agriculture.

I appear before you today to discuss two areas of particular concern to FASEB — funding levels for the competitive research grants program of the Cooperative State Research Service (CSRS), and the animal welfare activities conducted by the Animal and Plant Health Inspection Service (APHIS).

In regard to the competitive research grants program, we recommend that 1) minimum funding of $46 million be provided for basic research grants in FY 1986; 2) this basic research program be freed of set-asides and earmarks for targeted research projects; and 3) additional funding be provided for competitive research grants in the area of human nutrition.

In regard to the animal welfare program in APHIS, we oppose the Administration's proposal to terminate federal involvement in this program, and instead propose that $6.5 million be appropriated for this activity in FY 1986, as proposed by the Inter-Society Council for Biology and Medicine. FASEB is a member of this Council.

Cooperative State Research Service — Competitive Grants

The Administration's FY 1986 budget proposal for the Department of Agriculture obligates $882 million for research and development activities. Of this amount, $46 million would fund the competitive grants program in the Cooperative State Research Service. Although the competitive research program would only account for a little over 5 percent of the Administration's Agriculture R&D budget, FASEB feels that this program is of extreme importance to basic biological and agricultural research, and urges this Committee to fully support this program.

Last year, the President recommended, and FASEB supported, a new biotechnology initiative for the competitive grants program in order to open new doors of scientific opportunity. Recombinant DNA technology, or gene splicing, has been found to have broad practical applications in many areas important to the public welfare; for example, the production of pharmaceutical products. The effect of biotechnology on agricultural research is being felt on many fronts. Vaccines are being developed for a variety of animal diseases. New varieties of plants are being developed that are designed to be resistant to parasites, thus reducing crop losses. Work is being done on reproductive efficiency of plants and animals, which holds great promise for increased crop and livestock yields. Proposed research on an ice-nucleating gene will result in an engineered bacteria which, when applied to crops, will result in a lowering of the plants' freezing points and thus prevent frost damage. According to CSRS, this process could save U.S. farmers up to $1 billion a year in losses due to frost damage.

While we applaud the new initiative in biotechnology, we must also express our disappointment at the amount of funding available for basic research in human nutrition. Although funding for the competitive research grant program rose last year by $29 million, none of this additional funding was provided for the human nutrition segment of the program. Funding for competitive grants in human nutrition, which has remained frozen at $2 million, now accounts for only 4.3 percent of the competitive research grants program. This is a drop of almost 7.5 percent during the past year. FASEB feels this trend needs to be reversed. During the past few years alone, we have learned a great deal about food composition; the effects of certain vitamins, minerals and food additives on specific population groups; and the important nutrition facets basic to human biochemistry, pathology, physiology, and immunology. A budget of $2 million does not begin to address the amount of excellent science that can be undertaken in human nutrition given the present state of knowledge.

Another concern we have regarding the competitive grants program is with the issue of earmarks for targeted research. Well over $5 million of the competitive research grants FY 1985 budget has been earmarked for targeted research. These set-asides include funding on acid precipitation, alcohol fuels, brucellosis, gypsy moth, boll weevil and boll worm, pine bark beetle, and soybeans. We do not question the scientific merit of these research areas. We do, however, question the placement of targeted research in a program designed to support basic agricultural research. Basic research operates best when each grant application is judged on its pure scientific merit, rather than on whether or not the research is targeted toward a particular area of investigation. A lesson we have learned from biomedical research is that basic research represents the cutting edge of scientific knowledge, and is best conducted in an atmosphere where the benchmark is to fund that science which is deemed to be best in fair and open competition. It is a lesson that we feel is equally applicable to agricultural research.

With this in mind, we recommend that the Committee fund the Competitive Research Grant Program at a minimum of $46 million, that this program not be burdened with various earmarks, and that additional funding be provided for basic research in human nutrition.

Animal and Plant Health Inspection Service — Animal Welfare

The Federation strongly opposes the Administration's proposal to terminate all funding for the animal welfare program in the Animal and Plant Health Inspection Service (APHIS). According to the Administration's budget proposal, "responsibility for enforcement of animal welfare regulation will be turned over to the States, industry groups, humane societies and individuals." We believe this proposal to be short-sighted and ill-advised.

As you know, Mr. Chairman, humane and prudent use of animals in biological and biomedical research is essential in order to produce scientifically sound findings. APHIS, through the inspection service performed by the animal welfare program in the Veterinary Service Division, is responsible for assuring that the provisions of the Animal Welfare Act are carried out.

FASEB believes that the Administration's budget proposal for the APHIS animal welfare program is contrary to Congress' explicit finding in the Animal Welfare Act that regulation of animals is necessary "in order to insure that animals intended for use in research facilities...are provided humane care and treatment." In enacting the Animal Welfare Act, the Congress determined that federal regulation was necessary in this area. Through the years, scientific societies such as FASEB and representatives of animal rights organizations have agreed that sufficient funding of the APHIS animal welfare program is needed in order that the Congressional intent in enacting the Animal Welfare Act be honored and fulfilled.

Should the Congress approve the Administration's budget proposal in this area, federal and state enforcement for animal welfare would become fragmented, resulting in even further confusion and controversy surrounding the use of animals in research.

The issue of the care and use of animals in research was first addressed by FASEB in 1913. At that time, we established a policy on animal experimentation which pointed to the "remarkable and innumerable achievements by means of animal experimentation" and pointed to the Federation's firm opposition to animal cruelty. Just last year, the Federation convened a panel of representatives to review our animal welfare policy. The panel recommended, and our Federation Board approved, a statement that reaffirmed the ethical and moral precepts of our 1913 policy and further noted that "well managed governmental inspection and regulation of (research) facilities and their supply channels are necessary and desirable protection against willful or inadvertant abuse of standards for animal care and management."

We support the recommendation of the Inter-Society Council for Biology and Medicine, a group representing a significant portion of the biomedical researchers in this country, to appropriate $6.5 million for APHIS animal welfare activities in FY 1986.

Thank you for the opportunity to share these views with you. I would be happy to answer any questions you may have.

CONGRESSIONAL WITNESS

STATEMENT OF HON. STEVEN D. SYMMS, U.S. SENATOR FROM IDAHO

Senator BURDICK. Next we would like to hear from our colleague, Senator Symms, U.S. Senator from the State of Idaho.

Senator SYMMS. Thank you very much, Mr. Chairman. I welcome the opportunity to testify before the Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies. Thank you for sharing my concern about the situation that American agriculture is in. I look forward to working with you and other members of the committee to try to help resolve some of the problems that face American farmers today.

Now, as you know, Mr. Chairman, Idaho is a farm State, so I guess that makes me one of those so-called farm State Senators you read about in the newspaper so much these days. I am sure you will be hearing from several of us before the 1986 agriculture appropriations procedures are through.

There are some farm State Senators on this subcommittee. I know Senator McClure very recently concluded touring the State of Idaho, holding farm forums to determine the needs of agriculture in our State. For those who are not farm State Senators—I know you are, Senator Burdick—let me explain what that means.

Among the resource industries that are the lifeblood of Idaho's economy, two of every three dollars produced come from agriculture. When agriculture in my State is suffering, the entire State suffers with it.

I would like to speak to you today, not just as a farm State Senator but also as a farmer myself. I have followed Federal farm policies all my life.

I had the opportunity to spend 8 years over in the other body on the agricultural committee. Some of our Federal farm programs have been very helpful, in my opinion, and some of them have not.

Today I would like to mention some of both. By far, the largest expenditure in the agriculture budget goes to the support of Government commodity programs. So I would like to address the commodity and supply management programs for just a moment.

I am told that those programs were created with the benefit of the farmer in mind. Unfortunately, that isn't always apparent to the farmer.

Government expenditures in these areas have increased dramatically over the past few years. The number of farm foreclosures has increased along with it. A graph, entitled "Comparison of Farms Receiving Direct Government Payments to Farms Experiencing Financial Stress," which was prepared by my able staff assistant, Trent Clark, who is also a farmer in Idaho—his family is in agriculture—is attached to my statement.

I would urge you to look at that graph, as it points out the comparison of farms receiving direct Government payments to farms experiencing financial stress by value of sales class. Those farms of the size $500,000 and over, although there are some of them in difficulty, there is not a large enough number to indicate on the statistical analysis, so they show a zero percent and they receive 6.9 percent of the direct Government payments.

Of those farms with $200,000 to $499,000 in gross sales, 24 percent are in financial stress, and they receive 15 percent of direct farm payments.

Now, notice the next group having from $100,000 to $199,000 in gross sales. Thirty-six percent of them are suffering from financial stress, and yet they receive 22 percent of the direct Government farm payments.

The other groups grossing from $40,000 to $99,000 and from $20,000 to $39,000, over 40 percent of both of those categories are suffering from financial stress and yet they are also large recipients of direct payments.

As this graph shows, the farms that are receiving the bulk of the Government payments are also the same farms that are being repossessed by the bankers.

Paying farmers not to produce in the hope of keeping the domestic prices high simply doesn't work. I have said for many years that the supply management programs that are promulgated in Washington, DC, along the banks of the Potomac, to control the supply of farm goods and reduce our production, are as effective as trying to clap with just one hand.

We live in a world economy, Mr. Chairman, and when we artificially keep prices high, and try to keep our production down, what we do is provide an umbrella for other countries to increase their production.

Our supply management programs don't stop increased production in Argentina and Brazil, Australia, Canada, and Western Europe. Those countries go on and continue to produce and produce and produce; and they use our artificially propped up prices as their price umbrella.

We end up with all the supplies in our bins at the expense of the taxpayer, and our farmers are suffering, as the graph shows in result of it.

I have to commend this administration for its efforts to submit an agriculture budget that recognizes the fallacy of these programs. In a time when Government spending must be carefully scrutinized, I see no reason to pour more money into farm programs that don't help farmers.

It is true the move toward a more market-oriented farm policy has its risks, namely the farm organizations are fearful of diving headfirst into a market where they are not sure of our ability to compete.

I personally believe that our farmers can compete in any market in the world if they are not subjected to excessive Government regulation, high interest rates, and subsidized foreign competition.

Of course, that is the world that they are living in. That is part of the reason why they are in trouble. They currently are subjected to too high interest rates, they are subjected to subsidized foreign competition, and they are subjected to a lot of excessive Government regulations. The Jones Act, for example, makes it so farmers can't get transportation for as low a price as some of their competitors.

Now, I would like to talk to you about some of the good news that I have found in agriculture, in my years both in farming and working with the USDA and as a member of the Agriculture Committee on the other side of the Hill.

I think there is no question that agricultural research is a valuable tool to help us compete internationally. A Federal dollar invested in research benefits the farmer an estimated seven times what direct subsidies do.

I dare say that the Agricultural Research Service and research grant money have done more to help farmers than any other activity of the Federal Government.

Particularly important to Idaho is the National Small Grains Collection. The agricultural research station in Aberdeen, ID, is a perfect location for this collection. I urge this subcommittee to seriously consider funding the relocation of this facility at Aberdeen.

It is very interesting, Mr. Chairman, that every single variety of wheat that is grown in the United States can be found within 100 miles of Aberdeen, ID.

It is an ideal place to do the research to come up with those varieties of wheat that can grow two blades of grass, so to speak, or two bushels of wheat where one used to grow. This will help reduce the farmer's cost per unit of production and make us more competitive.

The protection of our Nation's productive soil is also a wise investment. Soil erosion in Idaho, since 1960, has been directly responsible for a $60 million loss in production in 1984 alone.

The present value of that lost production over the next 25 years is $298 million, that is if the erosion doesn't worsen in the next two or three decades.

The work of the Soil Conservation Service, in my judgment, has been helpful in recovering these losses. Consequently, I would urge you to give high priority to the agency's budget.

Reducing losses due to pests and predators will also help us become more worldly competitive. The USDA Integrated Pest Management Program should be supported. Speaking on this topic, I cannot overstress the Federal Government's responsibility to control pests arising on Federal lands.

When Secretary Block visited Idaho last year, he saw what was, in his opinion, the worst outbreak of grasshoppers he had ever seen.

I would encourage the subcommittee to support Senator McClure's proposal for grasshopper control. A number of States will be seriously affected if at least $15 million is not set aside for this work.

Now, last, Mr. Chairman, I want to mention predator control. I would urge this subcommittee to once again take the responsibility of funding the Animal Damage Control Program. This program was originally authorized under the Secretary of Agriculture because of its importance to the agricultural sector of the Nation.

Even though the program is currently funded in the Department of the Interior, it has not lost its importance to farmers and stockmen.

Many members of this subcommittee have already joined me in urging President Reagan to transfer the Animal Damage Control Program from the Department of the Interior to the Department of Agriculture. I request that our letters to him and to Secretary of the Interior Hodel, be included in this hearing record.

[Clerk's Note.—The letters appear with Senator Symms' prepared statement, which appears at the conclusion of his oral testimony.]

The Interior Appropriations Subcommittee does not determine national agriculture priorities. That is a responsibility given to this subcommittee. For years now, we have funded the Animal Damage Control Program without it being prioritized among other agriculture functions. It is time we corrected this historic misplacement of duties.

As former Secretary of the Interior Clark noted, "The Department of Agriculture would be a much more reasonable place to lodge the cost of this program."

In conclusion, Mr. Chairman, one thing about farm State Senators: They can talk for hours on the needs of agriculture in their State. However, I know my good colleague from Idaho will carry on in my absence.

I thank the committee for this opportunity and wish you the best in your efforts to adopt a sound fiscal policy for agriculture which will help America's farmers become more competitive and able to survive in the world economy that we live in. I thank you for the opportunity to be here.

I ask that the material that I have attached be added to the hearing record. This includes the letter to the President, which was signed by 20-some of our colleagues, Mr. Chairman, dealing with the question of the Animal Damage Control Act and where the proper function is. I think it would be helpful to have that in the record and the letter to Secretary Hodel with the same information.

Senator BURDICK. Those documents are received for the record.

Senator SYMMS. Thank you very much, Mr. Chairman.

Senator BURDICK. Thank you.

I just have a question here for you. I am told that Senator McClure, who is a member of this subcommittee, plans to include additional funds on the next supplemental appropriation bill in the grasshopper area.

Senator SYMMS. Yes.

Senator BURDICK. When would these funds be needed for the grasshopper control to be effective?

Senator SYMMS. They need to be in before early summer, and hopefully made available in a supplemental appropriation so that the grasshopper control could start as early as the first of July, I believe. Funding needs to be out there right away so the proper planning can be done in those Western States.

I think Senator McClure's proposal is that there be a cost-sharing arrangement worked out between private, State, and Federal ownership, of which the private and State would cooperate and pay part of their share on their own lands, and that the Federal Government would pay for 100 percent of the control on Federal lands.

It was very evident last year that most of the grasshoppers came off Federal lands onto private farms and just decimated the crops. Desert areas surround most of Idaho's irrigated land.

They need to be controlled at the early stage before they have a second hatch. Then the grasshoppers are young and much easier to contain and control.

Senator BURDICK. I am well aware of the peril.

Senator SYMMS. I am sure you have that problem in North Dakota.

Probably in your State I would think you need it even earlier.

Senator BURDICK. That is my problem. How quickly can we have a supplemental bill?

Senator SYMMS. You have my support to act on it next week.

Senator BURDICK. I don't think it is scheduled.

Senator SYMMS. Well, I will be happy to talk to the majority leader about that and do all I can do to encourage early passage. I think the Senator is right on target.

If we get this money out there by the first of September, we might as well not do it.

Senator BURDICK. That's right. You have covered the waterfront, so to speak, on the farm programs. Somewhere back in my mind I heard that you also raise potatoes in Idaho, is that true?

Senator SYMMS. That's correct.

Senator BURDICK. How are you doing?

Senator SYMMS. The potato farmers have done fairly well the last 2 years in the Idaho economy. We have a lot of competition, of course, from other areas.

Senator BURDICK. Like the Red River Valley.

Senator SYMMS. Like the Red River Valley, like Washington and Oregon.

Idaho produces almost 30 percent of the Nation's potato crop. But it is not without a lot of competition from other growing areas. There again, agriculture research in potatoes is beneficial not only to the farmers in Idaho but all of the country. The Agricultural Research Service has been very helpful in producing a quality potato.

Of course, we do spend a great deal of money in our own State, on our own State checkoff program. Wherever a sack of potatoes has a duty or tax imposed on it, that money goes to the Idaho Potato Planning Commission, and they do a lot of research in the State through the State University Extension System. It is a very important business to our State.

Senator BURDICK. Thank you very much.

Senator SYMMS. Thank you, sir.

[The information referred to in Senator Symms' statement follows:]

COMPARISON OF FARMS RECEIVING DIRECT GOVERNMENT PAYMENTS TO FARMS EXPERIENCING FINANCIAL STRESS, BY VALUE OF SALES CLASS

Size of Farm ($1,000 of annual sales)	Percent experiencing financial stress[1]	Percent of total direct government payments[2]
500 and over	0	6.9
200 to 499	24	15.0
100 to 199	36	22.6
40 to 99	46	33.4
20 to 39	41	10.6
10 to 19	29	4.2
5 to 9	14	4.0
2.5 to 4.9	11	1.9
under 2.5	1	1.4

[1] Taken from "Farm Financial Stress, Structure of Agriculture and Public Policy," Paper presented by Luther Tweeten at the American Enterprise Institue conference on U.S. Agricultural Policies held in Washington, D.C. on January 28 and 29, 1985 (figures are for 1983)

[2] Economic Indicators of the Farm Sector: Income and Balance Sheet Statistics, 1983. National Economics Division, Economic Research Service, U.S. Department of Agriculture. ECIFS 3-3.

LETTER FROM SENATOR SYMMS, ET AL

The President of the United States January 23, 1985
The White House
Washington, D.C. 20500

Dear Mr. President,

We are writing to urge you to transfer the Animal Damage Control (ADC) program from the Department of Interior to the Department of Agriculture.

As you know, the Animal Damage Control Act of 1931 was designed to reduce agricultural losses from predatory animals. As the chief advocate of the nation's farmers and ranchers, whose livelihoods depend on minimizing such losses, the Department of Agriculture was directed to administer the program. In spite of these objectives, however, in 1940 the Interior Department assumed jurisdiction of ADC activities.

For decades, the agricultural sector has complained that animal damage control has been suppressed and its effectiveness greatly reduced under Interior's jurisdiction. A review of the controversies surrounding ADC indeed raises questions as to the purpose and direction of the program. The Fish and Wildlife Service at Interior is primarily charged with conservation and utilization of wildlife resources--the protection of domestic livestock is often at odds with that charge. In response to this incompatibility with overall Department goals, numerous bills, Congressional hearings, and Members of Congress have endorsed the return of ADC to the Department of Agriculture.

We believe that the interdepartmental transfer of the ADC program could be made without Congressional action. The Reorganization Plan of 1939 is often cited as the law that transferred ADC to Interior. In truth, although the 1939 Act does transfer the Bureau of Biological Survey, it does not mention a relocation of ADC. While outlining his plans for the reorganization, President Roosevelt addressed the ADC functions, saying:

> However, I intend to direct that the facilities of the Department of Agriculture shall continue to be used for research studies which have to do with the protection of domestic animals from diseases of wildlife, and also where most economical for the protection to farmers and stockmen against predatory animals. (1939 Reorganization Plan No. II, Message of the President, 5 USCA appendix)

Congress enacted the Reorganization Plan, assuming that it would be implemented according to the President's announced intentions. In short, to the best of our knowledge, neither statute nor executive order specifically establishes the Department of Interior's responsibility for the Animal Damage Control Program. This has obviously contributed to the program's currently unclear purpose and direction.

Consequently, we respectfully urge you to restore the ADC program to the Secretary of Agriculture to whom it was originally assigned. Such a move will not only better comply with congressional intent, but will also provide much needed relief to our nation's struggling agricultural sector.

With best regards, we are

Respectfully yours,

Lloyd Bentsen
LLOYD BENTSEN
Senator from Texas

Steve Symms
STEVE SYMMS
Senator from Idaho

Pete V. Domenici
PETE V. DOMENICI
Senator from New Mexico

Jesse Helms
JESSE A. HELMS
Senator from North Carolina

Jim McClure
JAMES A. McCLURE
Senator from Idaho

Paul Laxalt
PAUL LAXALT
Senator from Nevada

Jake Garn
JAKE GARN
Senator from Utah

Ed Zorinsky
ED ZORINSKY
Senator from Nebraska

Orrin Hatch
ORRIN G. HATCH
Senator from Utah

Spark M. Matsunaga
SPARK M. MATSUNAGA
Senator from Hawaii

John Melcher
JOHN MELCHER
Senator from Montana

Malcolm Wallop
MALCOLM WALLOP
Senator from Wyoming

Max Baucus
MAX BAUCUS
Senator from Montana

David L. Boren
DAVID L. BOREN
Senator from Oklahoma

Larry Pressler
LARRY PRESSLER
Senator from South Dakota

Jim Abdnor
JAMES ABDNOR
Senator from South Dakota

Mark Andrews
MARK ANDREWS
Senator from North Dakota

Don Nickles
DON NICKLES
Senator from Oklahoma

Chic Hecht
CHIC HECHT
Senator from Nevada

Pete Wilson
PETE WILSON
Senator from California

LETTER FROM SENATOR SYMMS, ET AL.

February 27, 1985

The Honorable Don Hodel
Secretary of Interior
Washington, D.C. 20240

Dear Mr. Secretary,

Congratulations on your new Cabinet position. We extend our best wishes and support as you undertake the responsibilities of the Secretary of Interior.

As you may know, a number of Senators recently urged President Reagan to transfer the Animal Damage Control (ADC) program from the Department of Interior to the Department of Agriculture (see enclosure). Your predecessor, Secretary Clark has expressed his personal support for such a transfer. We commend the high regard you indicated for Mr. Clark's position during your confirmation hearing.

ADC is administered by the USDI through an historic misplacement of responsibility. The program emerged in Interior by Congressional default. As long ago as 1931, and as recently as 1980, Congress has explicitly indicated the USDA's true responsibility for animal damage control. We join our colleagues' affirmation that further Congressional action is unneeded. Congressional intent already being clear, further legislation would only be redundant.

The prime incentive for Congress's ADC appropriation (currently $19 million/year) is the protection of agriculture. As former Secretary Clark stated, the proposed transfer would reasonably lodge this cost with its appropriate agency, the Department of Agriculture. We respectfully urge your immediate action to bring about this long-overdue transfer.

With best regards,

Sincerely,

Russell Long
RUSSELL B. LONG
Senator from Louisiana

Steve Symms
STEVE SYMMS
Senator from Idaho

Strom Thurmond
STROM THURMOND
Senator from South Carolina

Quentin Burdick
QUENTIN N. BURDICK
Senator from North Dakota

Ted Stevens
TED STEVENS
Senator from Alaska

Lawton Chiles
LAWTON CHILES
Senator from Florida

J. BENNETT JOHNSTON, JR.
Senator from Louisiana

Wendell Ford
WENDELL H. FORD
Senator from Kentucky

Dick Lugar
RICHARD G. LUGAR
Senator from Indiana

ALAN K. SIMPSON
Senator from Wyoming

Slade Gorton
SLADE GORTON
Senator from Washington

Phil Gramm
PHIL GRAMM
Senator from Texas

MARK O. HATFIELD
Senator from Oregon

JOHN HEINZ
Senator from Pennsylvania

Bill Armstrong
WILLIAM L. ARMSTRONG
Senator from Colorado

PAULA HAWKINS
Senator from Florida

DAN QUAYLE
Senator from Indiana

Howell Heflin
HOWELL HEFLIN
Senator from Alabama

JEREMIAH DENTON
Senator from Alabama

Bob Packwood
BOB PACKWOOD
Senator from Oregon

HUMANE SOCIETY OF THE UNITED STATES

STATEMENT OF JOHN E. McARDLE, PH.D., DIRECTOR, ANIMAL LABORATORY

Senator BURDICK. Our next witness will be John E. McArdle, director of animal laboratory, Humane Society of United States. Mr. McArdle.

Dr. McARDLE. I am Dr. John McArdle, director of laboratory animal welfare for the Humane Society of the United States. On behalf of the HSUS and our 360,000 constituents, I am here to address the issue of appropriate funding for APHIS enforcement of the Animal Welfare Act.

I would also like to take this opportunity to thank you for your assistance in securing the GAO study of APHIS' performance.

As you are aware, this year the Office of Management and Budget has proposed that the APHIS fiscal year 1986 budget be reduced to zero. The proposal is tantamount to executive repeal of the act by eliminating enforcement and inspections.

I am also here on what may be a fairly contradictory rule, asking for increased funding for a program of which we are also highly critical.

There is no doubt that the HSUS and APHIS have not seen eye-to-eye on the quality of their enforcement and what they have accomplished since the enactment of the Animal Welfare Act in 1966.

We, however, believe that there is a need for increased funding, and we have additional requests to go with that in order to ensure that that increased money is spent in an appropriate manner and to achieve the goals of the Animal Welfare Act.

For the last 3 years the HSUS has come to this subcommittee to ask for appropriation funding, and you, in your wisdom, have seen fit to grant us that.

As I said, the Office of Management and Budget is attempting to eliminate the role. However, we are also concerned that if you merely restore funding to its previous levels, APHIS will be faced with a fiscal year 1982 budget to serve fiscal year 1986 demands.

In addition to increased funding, we would ask the assistance of the committee to secure the following additional recommendations that we have to ensure that the money is spent for the Animal Welfare Act.

We would like to see the Office of General Counsel, where we believe that a great deal of the problem lies with enforcement, take a more active and aggressive interest in prosecuting violators of the Animal Welfare Act, and specifically, we would like to see the formation of a special section within the OGC dealing specifically with the Animal Welfare Act.

We believe there is a great deal of need for increased training and the quality of the inspectors who work for APHIS. We would like to see animal welfare specialists be assigned to this particular task, individuals with the appropriate training may be hired, or that training be provided.

In order to secure proper enforcement and activities of these inspectors, we would strongly suggest the stability of a specially trained, Washington-based team of inspectors whose job, essentially, would be to go out and check up on the quality of the work of the APHIS inspectors themselves. It would be some degree of quality control.

We have been able to document instances where an inspector from APHIS would go in, find no violations, another APHIS inspector will go in, in as little as a week later and find 50 or 60 violations.

We believe APHIS must provide more inspections per facility and the additional budget funding should accomplish this.

Finally, we would very much like your assistance in securing oversight hearings, which we believe are long overdue and have not been held on this act since it was passed in 1966. We think such oversight hearings will go a long way to identifying where the deficiencies are and where the future needs are for this program.

I thank you.

Senator BURDICK. Thank you.

As you know, 2 years ago the subcommittee directed the GAO to conduct a study of the Department of Agriculture Animal Welfare Program. It is my understanding that the Department is now in a process of reviewing the report.

I assume that you had some input into that report or are familiar with the initial findings. Do you have any general reaction to the report that you would like to share with the subcommittee?

Dr. MCARDLE. We, in fact, provided a great deal of the documentation at the early stages of that report in terms where we feel the deficiencies of performance lies within APHIS.

I have not seen the actual report, because it has not been released yet. I have seen a summary and some general information about it. I believe that it will document the deficiencies that are there, and they extend beyond just problems with funding.

Senator BURDICK. You indicate that APHIS' Office of General Counsel takes an active interest in prosecuting violations identified by APHIS inspectors.

Have you noticed any reluctance to prosecute or lack of prosecutions?

Dr. MCARDLE. Unfortunately, that is what we have noticed from our people in our regional field offices. Also, the feedback we are getting from the APHIS inspectors frequently in the field is that they turn in violations and nothing happens.

In one particular instance we know of a major university in California that had not passed an APHIS inspection for more than 6 years. They finally took them to court but only after a citizen's suit was filed to force them, the OGC, to do it.

We think the documentation will support the OGC as a major roadblock.

Senator BURDICK. Thank you very much.

[Dr. McArdle's prepared statement follows:]

STATEMENT OF DR. JOHN EDWARD MCARDLE

MR. CHAIRMAN, I am Dr. John McArdle, Director of Laboratory Animal Welfare for The Humane Society of the United States (HSUS). On behalf of The HSUS and our more than 360,000 constituents, I am here to address the subject of appropriate funding for enforcement of the Animal Welfare Act, under the charge of the Animal and Plant Health Inspection Service (APHIS).

APHIS is responsible for administering the Animal Welfare Act (AWA) which ensures humane treatment of animals used in laboratories, displayed in zoos, raised in puppy mills, appearing in circuses, and handled by dealers. The Animal Welfare Act mandates licensing or registering, as well as inspections of these facilities. In FY 85, APHIS had a budget of $4.865 million to administer the AWA. This year the Office of Management and Budget (OMB) has asked that the APHIS FY 86 budget be reduced to zero. This proposal is tantamount to executive repeal of the Act, by simply eliminating enforcement and inspections.

Now, Mr. Chairman, The HSUS has what might appear to be a seemingly contradictory task today--to advocate a significant increase in funding, while being simultaneously critical of APHIS for inadequate enforcement of the Animal Welfare Act.

There is no doubt that The HSUS and APHIS have not seen eye-to-eye on enforcement and accomplishments since the enactment of the Animal Welfare Act in 1966. Today we are here again in support of appropriate funding for APHIS but with some requests to go in tandem with increased funding. We want more inspections per facility, higher quality inspections once the inspectors get there, and more vigorous prosecutions of violations. These have never been accomplished under previous funding levels.

To give you a historical perspective on the situation, I must refer to 1982. The FY 82 budget had been $4.8 million for all these inspections. However, budget proposals in both FY 83 and FY 84 called for a 70% reduction in funding, from $4.8 million to $1.5 million. Then in FY 85 a reduction of 25% was proposed.

For the last three years, The HSUS has returned to this subcommittee to ask for restoration of funding, and you in your wisdom have agreed. The OMB is now attempting to entirely eliminate APHIS's mandated role of enforcing the AWA. However, if again this year you merely restore funding to its previous level, APHIS will be faced with an FY 82 budget to serve FY 85 demands.

Since the Animal Welfare Act covers privately owned animal facilities as well as publicly funded ones, APHIS has a tremendous responsibility to the American people who, after the Animal Welfare Act was passed, believed that the millions of animals in facilities were being checked regularly to ensure proper care.

RECOMMENDATIONS

1. Mr. Chairman, we are not only asking for more money for APHIS this year, we are seeking better performance, and we ask

for a mandate to that effect from this subcommittee. APHIS's Office of General Counsel (OGC) must take an active interest in prosecuting those violators identified by APHIS inspectors.

2. More and better training is necessary for APHIS inspectors. There exist some fine Animal Care Specialists within the agency, but many APHIS inspectors simply do not feel comfortable observing animals for signs of pain or improper care. Improved training will produce a higher quality of inspections.

3. The HSUS also strongly suggests the establishment of a specially trained, Washington-based team of inspectors who are independent of the local and area system of camaraderie, which is commonplace in areas where the relationship between animal facilities and inspectors becomes incestuous. This special group should be charged with quality control and would be comparable to agency Inspector Generals (IGs).

4. APHIS must provide more inspections per facility.

5. The HSUS also strongly urges the establishment of a section within the Office of General Counsel, specifically designated for AWA enforcement.

6. Finally, in keeping with our continuing concern that APHIS do its job according to congressional mandate, public demands, and fiscal accountability, The HSUS will be using every resource available to assure that The Animal Welfare Act receives long-overdue oversight hearings in the authorizing committee. We solicit your help and participation.

SOCIETY FOR ANIMAL PROTECTIVE LEGISLATION

STATEMENT OF CHRISTINE STEVENS, SECRETARY

Senator BURDICK. The next witness is Christine Stevens, Society for Animal Protective Legislation.

Welcome to the committee.

Ms. STEVENS. Thank you very much, Mr. Chairman.

You have my testimony. I also brought with me some tearsheets from Life magazine of 1966, which I would like to leave with the committee to show how very important it is that USDA be given increased funding rather than have their funding totally taken away from them.

Senator BURDICK. Are you leaving that material?

Ms. STEVENS. Leaving it for you, yes, if I may.

Senator BURDICK. It will be received for the file.

Ms. STEVENS. Thank you.

As you know the Animal Welfare Act is the chief Federal law protecting animals in the United States. And it was passed originally by a vote of 85 to nothing in the U.S. Senate.

I have attached to my testimony the information from USDA on how the money was spent last year, and we have analyzed that to indicate where we think the greatest need is for increased funding.

It amounts, on page 2 of my testimony—you will see the figures—to an addition of approximately $2 million. The emphasis is on more inspection of research facility sites, more training, and reinspection of dealer sites.

A few examples, as you will see in these tearsheets, will bring home the urgent need. Recently, USDA obtained a fine against a cruel dog dealer of $10,000 with $114,000 suspended, which will be invoked if he ever again goes into the dog dealing business.

The most important function of the Animal Welfare Act is to prevent cruelty before it happens—before it is necessary to punish people who are mistreating animals. That is what the American public wants. It is what it expects from the U.S. Department of Agriculture, and that is what Veterinary Services can and will achieve if it is responsibly funded.

The emphasis that I want to put is on the amount of money that can be saved for the Government if there is adequate funding for USDA.

Approximately $4 to $5 billion is allocated by the Congress for the National Institutes of Health each year. The inspections by USDA for animal laboratories can be considered as a form of insurance, so that research disasters which cost the taxpayer vastly more than the USDA inspection program, can be averted.

Such disasters are so very hard to even find that when animals die, when they sicken, research data is distorted for lack of proper care of the animals. Then the money that the taxpayers have put out for research has been not only wasted in that particular instance, but it may be affecting a great many other research results because the data gets into the computers and is extremely hard to remove.

Reinspection of licensed dealer sites must be increased in quantity and quality to prevent theft for sale to laboratories from proliferating still further.

There were 13 dogs removed by 13 separate owners from the Mayo Institute just last year showing what the problem is. It is difficult to follow up and find these terrible conditions.

The deterrent effect, which good enforcement of the Animal Welfare Act can have, will certainly save the Government an incalculable amount of money.

Training is needed—extra training. There was only $90,000 spent last year, and we are only suggesting to raise it to $250,000. That is really too small. But as I note, we are trying to keep our requests just as low as is humanly possible.

So in closing, I would emphasize the opportunity to save major amounts of taxpayers' money through modest expenditure in upgrading the administration of the Animal Welfare Act.

Thank you very much, Mr. Chairman.

Senator BURDICK. Thank you.

When APHIS testified before this subcommittee, the administrator said that there are some 143 humane organizations throughout the 50 States, and that, therefore, we should rely on these groups to enforce the standards of the Animal Welfare Act. Would you care to comment on this statement?

Ms. STEVENS. I would be glad to. As one of the very few humane societies which have made a point of visiting laboratories, I can tell you that it is absolutely out of the question. It is impossible for humane societies to do this work.

First of all, you have to make an appointment. We write a letter. We call on the phone. Occasionally we come by and say, "May we come in?"

In many cases you may be put off. Sometimes we have had our representatives sitting while the person knew the laboratory was being cleaned up and then when they finally came in, everything had just been hosed down a few minutes before.

This is the type of thing that laboratories have every right to do, since there is no law saying that humane societies can come in unannounced.

The U.S. Department of Agriculture can come in unannounced, and that is the reason why—I have just a small number of examples here, Mr. Chairman, of which we have a long list.

I mean simply starting at the beginning of the alphabet with the A's. Let me read just a few things that USDA inspectors find. This is the University of Colorado:

> No single person responsible. Difficult to find the animals or even to know if new species have been added to unspecified laboratory or newly proclaimed animal room.

This is common to find that because there is such tremendous pressure to use more and more animals that suddenly a trailer will turn up or a shack in which animals are found, and the USDA inspector has to look.

Here is another:

> At the medical center, proper identification, recordkeeping was not done. Records of actual number of dogs handled. There is still a discrepancy in the number of animals which are on the premises and the number listed on the records.

That, of course, can indicate theft.

Or again, at the medical center:

> Filthy conditions for primates. The rooms used to house the primate colonies are not being cleaned up often enough to prevent odors, and manure in the building is at unacceptable levels. There was a lot of manure on the floors, more than could be expected smeared on the walls and the windows of the primate rooms.
>
> Some windows were smeared to the point it was difficult to see through them. Recommend that the case be filed as a violation of the Animal Welfare Act.

This is the kind of thing that the humane societies would not be able to do.

Senator BURDICK. You are asking not only to freeze the fiscal 1985 level of funding for the Animal Welfare Act, but you are asking for a $2 million increase.

Are you saying that the fiscal year 1985 level of funding is so inadequate that the funding at that level would be a waste of money? Or is that level of funding at least adequate to carry out part of the full-fledged program that you would like to see?

Ms. STEVENS. It is adequate to carry out part. The reason that we feel this modest addition is so terribly important is that it can take the enforcement over a hump that it has not ever yet achieved. Although this law has been on the books since 1966, it has always been struggling, always underfunded, always pushed aside.

If it can get just a little further, it can do the job that the American public expects it to do and that the Senate certainly expected it to do, as I mentioned, by a unanimous vote.

So that is why we really believe, even in a year of very tight fiscal budgeting, the small increase would make the difference.

I was delighted to hear that the Federation of American Societies for Experimental Biology is also asking, independently, for an amount, very close to what we also figured was necessary.

Senator BURDICK. Thank you very much for your testimony this morning.

[Ms. Stevens' prepared statement follows:]

STATEMENT OF CHRISTINE STEVENS

The Animal Welfare Act is the chief federal law protecting animals in the United States. It sets minimum standards for care of animals in laboratories, zoos, circuses, dealers' premises, wholesale pet dealers and carriers transporting these animals. Passed by a vote of 85-0 by the U.S. Senate in 1966, it has the overwhelming support of the American public which has vigorously backed its broadening and strengthening amendments in 1970 and 1976, passed by overwhelming majorities by both Houses of Congress.

Current support for the Act amounts to $4.865 million, which is not adequate to provide sufficient inspection and enforcement by the U.S. Department of Agriculture's Veterinary Services which administers this important law. Last year, $4,225,156 was spent, not counting overhead and support charges for the regional offices, Administrator's office and Department functions such as the Budget and Accounting Division, Information Division and others. The break-down of expenses is attached.

It shows only $481,996 spent for inspection of registered research facilities numbering more than 1100, and averaging at least three sites per facility. Universities frequently have twenty or thirty sites. To provide four unannounced inspections per year at an estimated cost of $130 per site visited by a USDA veterinary inspector requires a minimum of $1,716,000.

Major research facility states have not even kept level with funds for inspection as compared with major "puppy mill" states. A letter from Veterinary Services, December 27, 1984, gives estimated dollar amounts expended in three states with large numbers of research facilities as follows:

California	$204,000
Pennsylvania	113,000
New York	98,000

During the same period three states with large numbers of puppy mills are listed as follows:

Kansas	$183,000
Iowa	152,000
Missouri	125,000

Puppy mills, too, desperately need frequent follow-up inspections to prevent the dishearteningly frequent deterioration of conditions for the animals. In no way do we wish to suggest that any of these much needed inspections be curtailed. They must be maintained, and licenses must be suspended or withdrawn to penalize cruelty.

We urge this distinguished Subcommittee to address a small but desperately needed increase of funds in the following areas:

1) Inspection and reinspection of research facility sites..............................$1,716,000
2) Reinspection of licensed dealer sites..... 400,000

3) Additional preparation for court cases to increase the deterrent effect of the Act on violators and potential violators..	250,000
4) Training..................................	250,000

These modest increases over FY 85's very tight budget would bring the FY 86 appropriation to $6,902,328, an increase of $2,037,328.

We strongly urge you, Mr. Chairman, to recommend this to the full Appropriations Committee and the Senate. These figures are the very minimum which would allow veterinary services to do the job Americans expect in preventing totally needless suffering imposed on helpless captive animals by neglect and abuse.

A few examples will bring home the urgent need. I would like to submit for use by the Subcommittee tear sheets from *Life* magazine of February 4, 1966 showing some of the conditions which existed before the Act was passed in that same year. These are the conditions which will again become widespread if the Act is not enforced. Recently, USDA obtained a fine against a cruel dog dealer of $10,000 with $114,000 suspended which will be invoked if he ever again goes into the dog dealing business. But USDA should have had sufficient funds to stop this dealer before the atrocious conditions which led to the heavy fine occurred.

The most important function of the Animal Welfare Act is to *prevent* cruelty and neglect *before* it becomes necessary to punish those who mistreat them. That is what the American public wants. That is what it expects from the U.S. Department of Agriculture. That is what Veterinary Services can and will achieve if it is responsibly funded.

Last year, the Society for Animal Protective Legislation requested that $8 million be appropriated for FY 85. We believe this sum would have been well used had the Congress decided to provide it for enforcement of the Animal Welfare Act. But this year, we recognize the valiant attempts being made to keep *all* government spending to an absolute minimum. For that reason, we have closely scrutinized the figures and made recommendations for small increases only where the results can be counted on to achieve maximum effects for reduction of animal suffering at the same time that they will provide maximum saving of taxpayers' money - a genuine savings which would be negated by the ill-considered zero budgeting proposed by the Administration.

To examine the five key points from the standpoint of economic pay-off:

1) Expenditure of $1.716 million for laboratory animal facility inspection to ensure that the $4 to 5 *billion* allocated by Congress to the National Institutes of Health is not severely undermined by the sickness and death of large numbers of experimental animals from causes totally unrelated to the scientific protocols makes sense. To accomplish this, repeated inspections by USDA veterinary inspectors are essential. At a cost of only 1/3000 of the NIH appropriation, research disasters, costing the taxpayer vastly more than the USDA laboratory inspection program, can

be averted. Even now, the dedicated efforts of the veterinary inspectors, pinched though they are for funds, have reversed atrocious conditions in many institutions. For your information I submit some examples from reports obtained from the Animal and Plant Health Inspection Services under the Freedom of Information Act. You may ask why NIH, which provides billions in grants, doesn't prevent the gross neglect and abuses documented in the the institutions it supports. For one thing, NIH has no inspection force. When it does make a rare "site visit" this is a costly affair often leading to no perceivable results -as, for example, when it flew six people across the country to visit the University of California at Berkeley, found that the University's "assurances" had not been lived up to, but after more assurances were given them flew back to Bethesda. The only effective means of inspection available to the federal government is the Animal Welfare Act enforced by experienced USDA regulatory veterinarians.

2) Reinspection of licensed dealer sites must be increased in quantity and quality to prevent dog theft for sale to laboratories from proliferating still further. Thirteen dogs were found by their owners at the prestigious Mayo Institute's dog facility last year. Illegally acquired by a "buncher" and sold to a licensed dealer, they were delivered to Mayo's and reclaimed personally by each of 13 owners (see attached). Much more time and effort will have to be expended-in the follow-up of dealers, bunchers and auctions to deter this lucrative and hard-to-detect form of interstate criminal activity from which the American dog owner has a right to protection.

3) The above is only one form of illegal activity for prevention of which increased funds are necessary. Prevention of repeated deficiencies in care of animals by laboratories, echibitors, dealers, and carriers is a massive area requirring very substantial effort by Veterinary Services.

4) All the first three points culminate in sound preparation for the legal cases which must be brought in order to provide the deterrent effect still to be achieved by the Animal Welfare Act. It is this deterrent effect which can save the U.S. Government untold funds in providing a high level of care for research and test animals on whose use enormous sums derived from tax money are annually spent. The way these animals are treated by dealers and carriers likewise has a direct influence on research conducted with them.

Finally, in order to carry out this important work effectively more training is needed. Last year only $90,556 was spent for training inspectors. No training for legal staff was undertaken at all. The latter is desperately needed, since important cases have been lost for want of sound planning by some attorneys assigned to Veterinary Services cases.

In closing, I would emphasize the opportunity to save major amounts of tax-payers' money through modest expenditure in upgrading administration of the Animal Welfare Act. Our Society had a much appreciated compliment from a member of the Appropriations Committee on the House side a few days ago. He said, "If everybody who asked for money did so the way you do to save the government money, we wouldn't have problems." We hope this request will be granted to help the Government, the tax-payers and the animals. Thank you.

Letter From R.L. Crawford, Animal and Plant Health Inspection Service

Dear Mrs. Stevens:

In accordance with your telephone request of March 25, 1985, the budget section has prepared the attached dollar figures for the various work units in the Animal Welfare Program.

The number of staff-hours accomplished in fiscal year 1984 was used as the basis for each work unit reported. An average salary figure was calculated for each work unit to arrive at the dollar amount. For example, research facilities and large exhibitors are inspected by Veterinary Medical Officers while dealers and small exhibitors are inspected by Animal Health Technicians. Research facility inspection costs are, therefore, based on a veterinarian's salary, dealer inspections on a technician's salary, and exhibitor inspection costs on a combination of both. Areas of investigations, complaints, and alleged violation cases are based on an average salary for Compliance Officers. The average salary figure used includes charges for Area Office overhead and support and the hours accomplished for each work unit include travel time. Therefore, these figures should cover most of the costs.

For fiscal year 1985, the emphasis has been shifted to research facility inspections. The expenditures in the research inspections should increase considerably while those for dealers should decrease.

If you have any questions, please contact me.

Sincerely,

R. L. Crawford
Chief Staff Veterinarian
Animal Care Staff
Veterinary Services

Field Costs for Staff Hours of Work Accomplished in the 4th Order Work Units for Animal Welfare in Fiscal Year 1984

Work Unit	Dollars Obligated (Spent)
Licensing Dealers' Premises	$ 182,503
Inspection of Licensed Dealers	1,061,902
Reinspection of Licensed Dealers	163,784
Registering Research Facilities	11,879
Inspect Research Facility Sites	481,996
Reinspect Research Facility Sites	71,274
Licensing Exhibitors' Premises	33,837
Inspection of Exhibitors	407,122
Reinspection of Exhibitors	62,994
Auction Markets, Sales, etc., Monitored	15,840
Approve Handling Facilities (Dealers)	716
Register Carrier or Intermediate Handler	1,440
Inspection of Carrier Sites	133,547
Inspection of Intermediate Handler Sites	34,558
Searches for Illegal AWA Activity	81,712
Investigate Complaints	168,104
Investigate Alleged Violations	419,002
Submission of Alleged Violations	158,387
Prosecution Support (Court Witness Hearings)	7,560
Request for Additional Information (Violation)	20,159
Attempted Inspection (No one home)	360
Training	80,992
Total	$3,599,668

In addition to the above costs, the Animal Care Staff budget contained $7,500 for Administrative Law Judges' costs to hear cases and $6,000 to pay witness fees and court transcript costs. The Staff also spent $9,564 for field training courses. The total Staff budget for fiscal year 1984 was $427,488.

Also, in fiscal year 1984, $198,000 of Animal Welfare appropriated funds were allotted to the Interstate Inspection and Compliance Staff for salaries, etc., for handling Animal Welfare cases. In fiscal year 1985, $265,000 of Animal Welfare funds were allotted to the Interstate Inspection and Compliance Staff.

For fiscal year 1984, this brings the total program related expenditures up to $4,225,156. In addition to this, there were overhead and support charges for the regional offices, the Administrator's office, and various Department functions such as Budget and Accounting Division, Information Division, etc., which are not included in these figures.

INTERSCIENCE COUNCIL ON BIOLOGY AND MEDICINE

STATEMENT OF DR. RUDY WODZINSKI

Senator BURDICK. Our next witness is Dr. Rudy Wodzinski, Interscience Council on Biology and Medicine.

Welcome to the committee.

Dr. WODZINSKI. Good morning.

Mr. Chairman, members of the subcommittee, my name is Rudy Wodzinski. I am professor of biological sciences at the University of Central Florida, in Orlando.

My remarks today concerning the fiscal year 1986 budget for the Animal Welfare Program of APHIS represent the views of the Public and Scientific Affairs Board of the American Society of Microbiology and the four other organizations represented on the Intersociety Council for Biology and Medicine.

We have prepared formal remarks, and they were submitted to this committee last week. Today I would just like to summarize those particular remarks.

The organizations which are represented on the Intersociety Council for Biology and Medicine are devoted to the highest standards of scientific and ethical responsibility in all research, including that involving the use of animals.

Humane and responsible use of animals as research subjects is essential to produce sound scientific findings and to improve the quality of life for humans and animals.

For these reasons, we are concerned that for the fourth year in a row, the administration is recommending termination of the Animal Welfare Program in the USDA's Animal and Plant Health Inspection Service by eliminating its budget.

We are gratified that the subcommittee has rejected these proposals in the past, and we encourage the subcommittee to not only maintain the Animal Welfare Inspection Program for fiscal year 1986 but to strengthen its overall capacity.

The research community strongly supports a Federal program of inspection of its research facilities to ensure humane care and treatment and appropriate use of live research animals.

The current Federal authority charged with the enforcement of the Animal Welfare Program, the APHIS Animal Welfare Program, however, is not being provided with the necessary financial resources to ensure an effective quality national inspection program with a sufficient number of well-trained, full-time inspectors.

The budget for APHIS should be increased to ensure that all groups are in compliance with the law. Rather than discontinuing funding, as proposed by the administration, we recommend an increase in fiscal year 1986 to $6.5 million.

This level of funding would substantially allow APHIS, for the first time, to build toward a more reasonable allocation of effort and personnel to inspect research facilities, dealers, animal handlers, and exhibitors, to ensure that the federally mandated act for humane care and treatment of research animals is being followed.

The administration's justification for requesting zero funding for the APHIS Animal Welfare Program is based on the assumption that local and State governments, industry groups, or humane societies could assume responsibility for its activities.

We contend, however, there are presently no State or local authorities or agencies capable of replacing the APHIS Animal Welfare Program. If the APHIS program were eliminated, a valuable tool that ensures compliance with the law would be lost. There would be no mechanism by which Federal funding agencies could be assured that the grantees were complying with either Federal or various State or local regulations or even whether such regulations existed at the local level.

Therefore, one of the major incentives that stimulate compliance would be eliminated. Furthermore, such a move would result in a confusing array of guidelines, standards, and interpretation, to the detriment of all concerned.

If unreasonable local regulations were substituted, it could conceivably jeopardize the biomedical research efforts of some of our leading research centers.

Of equal concern is the potential impact on education and research for regions that impose unrealistic and unreasonable replacement guidelines. Under these circumstances, the use of animals for teaching and research could be economically unfeasible, hindering the development of future physicians, scientists, and veterinarians.

This is especially significant in some of the smaller institutions which do not have the financial resources to make substantial changes in their programs.

In conclusion, the Intersociety Council for Biology and Medicine believes it is clearly in the national interest to strengthen the Animal Welfare Program within APHIS by providing additional funds and personnel.

There has been essentially no increase in the budget for the APHIS Animal Welfare Program since 1980, despite the continuing need for this essential program.

APHIS is the agency best suited to administer the Animal Welfare Act, and the council would oppose any effort to impair its ability to function by reducing its current level of $4.9 million.

Based on a review of the activities of APHIS, the council concludes that more effective administration of the Animal Welfare Act can be achieved only by increasing the appropriation for APHIS. We recommend that the APHIS budget for animal welfare be increased to $6.5 million in fiscal year 1986.

Thank you for this opportunity to share these views. I would be pleased to respond to any questions you might have.

Senator BURDICK. Thank you.

You indicate that you represent a major portion of the scientists who conduct biomedical research in the United States. Can you provide for the subcommittee what percentage of the research scientists you represent?

Dr. WODZINSKI. Well, the council represents the American Institute of Biological Scientists, the Association of American Medical Colleges, the Federation of American Societies for Experimental Biology, the National Foundation for Infectious Diseases.

If we look at the numbers for each one of those, we would come up with a number that would be much too high because many of the scientists belong to more than one organization. But it is somewhere between 50,000 and 100,000, and I believe that in the biomedical community, it is almost close to 100 percent that a person belongs to one of those organizations. Otherwise, they do this for their own professional development.

Senator BURDICK. You speak of a well-trained cadre of Federal inspectors. APHIS earlier testified that their inspectors are required to be trained. They have frequent and regular training. In 1985, all the inspectors have had sufficient training.

Do you feel that the current training is insufficient? Or are there just not enough inspectors?

Dr. WODZINSKI. There are just not enough. I think it comes out to something like 35 full-time positions. Most of them only work 6 percent of their time as allocated. If you multiply this all out, it comes to be 35 individuals who do the inspecting over 50 States. That is a lot of inspections to go through. It is a tremendous number.

Senator BURDICK. Thank you.

Dr. WODZINSKI. Thank you.

[Dr. Wodzinski's prepared statement follows:]

STATEMENT OF RUDY J. WODZINSKI

This statement concerning the Fiscal Year (FY) 1986 appropriation for the animal welfare program of the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) is presented on behalf of the Inter-Society Council for Biology and Medicine (ISCBM). Collectively, these organizations represent a major portion of the scientists who conduct biomedical research in the United States. These organizations are devoted to the highest standards of scientific and ethical responsibility in all research, including that involving the use of animals. Humane and esponsible use of animals as research subjects is essential to produce sound scientific findings and to improve the quality of life for humans and animals. Therefore, the ISCBM recommends that Congress reject the Administration's proposal to reduce the minimal resources APHIS has for animal welfare activities in its Veterinary Service Division.

The research community strongly supports a federal program of inspection of its research facilities to ensure the humane care and treatment and appropriate use of live research animals. The current federal authority charged with enforcement of the Animal Welfare Act, the animal welfare program in the Veterinary Service Division of the USDA's APHIS, however, is not being provided with the necessary financial resources to ensure an effective quality national inspection program with a sufficient number of well-trained, full-time inspectors. The budget for APHIS should be increased to ensure that all groups are in compliance with the law. Rather than discontinuing funding as proposed by the Administration, the ISCBM is recommending an increase for FY 1986 to $6.5 million. This level of funding would substantially allow APHIS for the first time to build toward a more reasonable allocation of effort and personnel to inspect research facilities, dealers, animal handlers and exhibitors to ensure that the federally mandated Act for humane care and treatment of research animals is being followed.

For the fourth year in a row, the Administration is recommending termination of the APHIS animal welfare program by eliminating its budget. The ISCBM is gratified that the Subcommittee has rejected these proposals in the past, and encourages the Subcommittee not only to maintain the animal welfare inspection program for FY 1986 but to strengthen its overall capacity. A strong national animal inspection service will help significantly to allay public fear concerning the use of animals in research and will provide assurance that research animals are being protected. A strong APHIS represents the best current approach to the concerns of individuals both in biomedical research institutions and humane societies. Although APHIS is doing a reasonably good job of enforcing the Animal Welfare Act with the resources it has been allocated, it is limited in the performance of its mission. APHIS does not conduct the number of inspections that would ensure complete compliance with the law and it does not have the staff to prosecute violators.

The Administration's justification for requesting zero funding for the APHIS animal welfare program is based on the assumption that local and state governments, industry groups or humane societies could assume responsibility for its activities. We contend, however, ~~that~~ there are presently no state or local authorities or agencies capable of replacing the APHIS animal welfare program. If the APHIS program were eliminated a valuable tool that ensures compliance with the law would be lost. There would be no mechanism by which federal funding agencies could be assured that their grantees were complying with either federal or various state or local regulations or even whether such regulations existed at the local level. Therefore, one of the major incentives that stimulates compliance would be eliminated. Furthermore, such a move would result in a confusing array of guidelines, standards and interpretations to the detriments of all concerned.

Scientists are convinced that in experiments which involve animals the proper care and treatment of animals is directly related to production of valid scientific results. It is obvious that the federal government, which supports over half of the biomedical research in the country, has not only a moral responsibility but also a strong fiscal responsibility to ensure that the standards for animal care are met by the researchers it supports. The prospect of a proliferation of different state and local regulations; in some circumstances no regulations at all, would lead to confusion and nonuniform administration of inspection programs across the country. If unreasonable local regulations were instituted, it could conceivably jeopardize the biomedical research efforts of some of our leading research centers. Of equal concern is the potential impact on education and research for regions that impose unrealistic and unreasonable replacement guidelines or laws. Under these circumstances the use of animals for teaching and research could be economically unfeasible hindering the development of future physicains, scientists and veterinarians. This is especially significant in some of the smaller institutions which do not have the financial resources to make substantial changes in their programs. Although these institutions are small in numbers they provide the necessary primary training for a large number of health professionals.

A professional and well-trained cadre of federal inspectors would assure a uniform level of inspection, detection and correction. It would also provide a source of consultation and guidance which would enable positive steps to be taken by the research facilities in planning and managing their animal care practices, before regulatory and remedial actions may be required. The proposed increase in APHIS's appropriation would enable it to strengthen the training of its own staff and eventually be able to provide services to research centers and local humane groups through regional workshops and conferences on research standards, federal regulations, and modern practices. It would be able to collect, maintain and publish substantially better data about the status of animal welfare, not only in research, but also in the much larger individual production and testing sectors.

The animal welfare program within APHIS is responsible for over 3,000 research facilities in the U.S. but only 6 of the 485 animal inspectors in APHIS are full-time. The remaining 479 inspectors devote only 6% of their time to animal welfare because of inadequate resources within APHIS. Therefore, a total of 35 full-time equivalent individuals are dedicated to this essential program. By regulation, APHIS is rquired to reinspect within 60 days a facility which has been found not to be in compliance. Because it is severely understaffed APHIS must of necessity give priority to inspection of identified noncompliers over the normal routine inspections required by law. In order to carry out the intent of the Animal Welfare Act, APHIS should be inspecting dealers, animal research facilities, handlers and exhibitors on the average of four times a year. Records of past performance in these groups would allow APHIS to gauge the number of inspections that would be reasonable within each group. Additional staff is needed not only to increase the number of inspections but also to expedite the processing of legal cases against those found to be violating the law.

In conclusion, the ISCBM believes that it is clearly in the national interest to strengthen the animal welfare program within APHIS by providing additional funds and personnel. There has been no increase in the budget for the APHIS animal welfare program since 1980 despite the continuing need for this essential program. APHIS is the agency best suited to administer the Animal Welfare Act and the ISCBM would oppose any effort to impair its ability to function by reducing its current level of $4.9 million. Based on a review of the activities of APHIS the ISCBM concludes that more effective administration of the Animal Welfare Act can be achieved only by increasing the appropriation for APHIS and we recommend that the APHIS budget for animal welfare be increased to $6.5 million in FY 1986.

Thank you for the opportunity to share these views and we would be pleased to respond to any questions you may have.

National Association of Federal Veterinarians

STATEMENT OF EDWARD L. MENNING, DVM, MPH, EXECUTIVE VICE PRESIDENT

Senator Burdick. Our next witness is Edward L. Menning, executive vice president of the National Association of Federal Veterinarians.

Dr. Menning. Thank you, Mr. Chairman. I would just mention that I am Dr. Edward Menning, and I am not only the manager for the Association, but I would like to point out that I am also board-certified in public health and preventive medicine, and have spent 30 years of my professional career in that.

Mr. Chairman, members of the committee, the National Association of Federal Veterinarians, which has approximately 3,000 federally employed veterinarians, appreciates this opportunity to discuss the specifics of the fiscal year 1986 USDA appropriations.

All three of these specifics relate to prevention being always best, and prevention usually being less costly.

First, user fees as a method of funding the meat and poultry program. We realize that because of the way this has been presented, that appropriations may or may not have been changed, but we would like to point it out here, as well, that we feel this should not be allowed.

The purpose of this inspection is for food safety and consumer protection, and as such, it is and must be mandated by the Federal Government. It must also be totally controlled by the Federal Government if it is to be objectively and safely enforced.

Even under the present system, some companies attempt to coerce inspectors, try to force weakened control, and request moves of inspection personnel when they are perceived to be too strict, et cetera.

Under any type of user fee, logic screams out that all of these efforts by companies would not only become more frequent, but obviously would become more successful as well.

Meat inspection cannot be uniformly provided by lower government units and certainly cannot be provided by consumers themselves. To give the regulated industry the responsibility for funding is to give them an essence of control.

This did not work with poultry inspection in the fifties, it did not work with meat inspection in 1947, and it will not work now.

Second, abolishment of funding for the Animal Welfare Program within APHIS must not be allowed. I would just point out there have already been many superb testifiers this morning to that, both those regulated as well as those wanting the regulations. I think that is extremely significant, that it is coming from both sides of the fence.

Animal welfare must be strengthened rather than abolished. Animal welfare is obviously needed for the animal's health and benefit. It, however, is equally necessary for human benefits which result from more reliable research data that evolves from uniformly well-cared for and healthy animals.

To even consider that humane societies or State or local government agencies could accomplish these tasks is unreal. They do not have the trained people. They don't have the resources. They don't have the objectivity, and they don't have the authority.

I would just mention that the question you raised earlier about reasons for APHIS being criticized for their present enforcement of this, would be resources and lack of them heretofore, but also, in my opinion, commitment—commitment not only within APHIS, but all the way up through the administration.

I am sorry to say that this lack of commitment seems to pervade issues involving animals and especially veterinary medicine when it comes up.

This commitment—lack of commitment—even extends occasionally into some of the humane societies that have been mentioned by Mr. Hawkins as being ones that maybe could control; and by that I mean the lack of commitment for proper animal welfare within some of the humane societies-owned pounds.

Unless we wish to revert to the dark ages of animal research, a minimum appropriation at the fiscal year 1985 level of $4.8 million should be appropriated.

Third, and finally, the Brucellosis Eradication Program must be vigorously pursued. This is important from views of human disease, from animal disease, for economical meat, for increased export of meat in animals, and critically for the maintenance of an adequate vanguard of veterinary services personnel.

Outbreaks of highly pathogenic diseases today could be disastrous to our health, wealth, and defense. Our country's defense system would be in jeopardy since an army still travels on its stomach.

If foot and mouth disease or any other disease were introduced into this country during periods of peace, immediately, all other countries not having those would ban the shipment of our meats to our own troops.

If it were introduced during mobilization, it could, of course, be extremely disastrous to the mobilization effort. Whether these highly virulent diseases which I just mentioned originate in this country—such as the recent avian influenza outbreak—or whether they are exotic, such a foot and mouth disease, is irrelevant.

We still need a minimum number of highly qualified veterinary services personnel always available to react immediately. Since the fiscal year 1985 veterinary services funding for brucellosis is a major part of the budget for APHIS, this required minimum personnel resource is really the overriding issue, as we see it, that must be considered in their overall budget, let alone for the brucellosis budget.

During lulls in the different epidemics, these people have many other critical disease control objectives which are both health and wealth cost effective.

One is brucellosis eradication. History documents no instance where less than Federal entities have coordinated and effectively controlled any multistate disease entity. Major Federal leadership, technical services, personnel, and money have always been required both here and in foreign countries.

Each administration, each Congress, and each individual, at one time or another has said that prevention is cheaper, prevention is best. Usually, however, funding for preventive measures dramatically fall short.

We must continue to provide all the services that only the Federal Government is capable of doing. We must protect and improve the public's health, our food producing animal's health, and our internal and external economy.

To do these, we must have a program funded adequately to: One, prevent entry of disease at ports; two, survey and detect indigenous and exotic diseases; three, maintain state-of-the-art technical and laboratory services; and four, react quickly to disease outbreaks of national importance.

NAFC, therefore, requests that the Veterinary Service budget of APHIS be funded at the 1985, $73 million level for brucellosis. The safest and most efficient food and animal production system on Earth can afford no less.

Mr. Chairman, this completes our testimony. I would be pleased to try to answer any questions you may have.

Senator BURDICK. Thank you very much.

[Dr. Menning's prepared statement follows:]

STATEMENT OF EDWARD L. MENNING

Mr. Chairman, members of the committee, the National Association of Federal Veterinarians appreciates this opportunity to discuss three questions of the FY-86 USDA appropriations.

First--User fees as a method of funding the Meat and Poultry Inspection Program should not be allowed.

The purpose of this inspection is for food safety and consumer protection. As such it is and must be mandated by the federal government. It must also be totally controlled by the federal government if it is to be objectively and safely enforced.

Even under the present system, some companies attempt to coerce inspectors, try to have weakened controls and request inspection personnel to be moved when they are perceived as being too strict. Under any type user fee logic screams out that all of these efforts by companies would become not only more frequent but would probably be more successful.

Meat inspection cannot be uniformly provided by lower government units and certainly cannot be provided by consumers themselves. To give the regulated industry the responsibility for funding is to give them an essence of control. This did not work with poultry inspection in the 1950's. It did not work with meat inspection in 1947. It will not work now.

Secondly--Abolishment of funding for the animal welfare program within the Animal and Plant Health Inspection Service must not be allowed.

Animal welfare must be strengthened rather than abolished. Animal welfare is obvioulsy needed for the animals' benefit. It, however, is equally necessary for human benefits which result from more reliable research data that evolve from uniformly well cared for and healthy animals.

To even consider that humane societies or local government agencies could accomplish these tasks is unreal. They do not have the trained people, they don't have the resources, they don't have the objectivity and they don't have the authority.

Unless we wish to revert to the dark ages of animal research, a minimum appropriation at the FY-85 level of $4.8 million should be appropriated.

Thirdly--The brucellosis eradication program must be vigorously pursued. This is important from views of human disease, from animal disease, for economical meat, for increased export of meat and animals, and critically for the maintenance of an adequate vanguard of Veterinary Services personnel.

Outbreaks of highly pathogenic diseases today could be disastrous to our health, wealth and defense. Our country's defense system would be in jeopardy since an army still "travels on its stomach." If foot and mouth (or any others) were introduced in peacetime--immediately all U.S. meat would be prohibited by most of the countries in which we have bases overseas. If it were introduced during mobilization the greatly decreased food production and other complications could be disastrous.

Whether these highly virulent diseases originate in this country (such as the recent avian influenza outbreak) or whether they are exotic and come from overseas (such as foot and mouth disease) is irrelevant. We still need a minimum number of highly qualified Veterinary Services personnel always available to react immediately. We cannot afford the ideal peak buildup number of personnel that will be required to finally control a massive epizootic but we cannot afford to go below the minimum needed for constant vigilance and for immediate onslaught reaction to the potential disease invasion. This minimum number in our opinion cannot be sustained with less than the FY 1985 Veterinary Services funding for brucellosis since this budget item contains a major amount of their man-years. This required minimum personnel resource is really the overriding issue that must be considered in their budget.

During lulls in epidemics these resources have many other critical disease control objectives which are both health and wealth cost effective. One is brucellosis eradication.

We strongly recommend that the continued goal be to eradicate brucellosis and tuberculosis among other diseases. Such has already been done in eight other major importing countries. Brucellosis is eradicatable just as was hog cholera.

History documents no instance where less than federal entities have coordinated and effectively controlled any multistate disease entity. Major federal leadership, technical services, personnel and money have always been required both here and in other countries. Scabies is an example of spread from only Texas in 1979 to ten times that now. States also have a history of taking retaliatory actions even on unrelated products. Allowing control of any national disease to become primarily state or industry managed would be the same as abolishing the program.

The States and the industry are currently carrying a very substantial load (over $70 million reported). That does not count the individual owners' share in testing, vaccination, handling, disease loss, etc. The greatly increased costs they would have to absorb would in essence be toward putting out small fires while the burning forest around them sent sparks everywhere.

Each administration, each Congress and each individual at one time or another have said that prevention or consumer-protection is best. Usually, however, funding for preventive measures drastically falls short.

We must continue to provide all the services that only the federal government is able to do. We must protect and improve the public's health, our food producing animals' health and our internal and external export economy. To do these we must have a program funded adequately to: 1) prevent entry of disease at ports, 2) survey and detect indigenous and exotic diseases, 3) maintain state-of-the-art technical and laboratory services; and 4) respond quickly to disease outbreaks of national importance.

NAFV therefore requests that the Veterinary Services budget at APHIS be funded at the 1985, $73 million level for brucellosis. The safest and most efficient food animal production system on earth can afford no less.

Mr. Chairman, members of the Committee, thank you for allowing the National Association of Federal Veterinarians to present its views. I will now attempt to answer any questions you may have.

Summary of Requests

1. That user fees as a method of funding the Meat and Poultry Inspection Program NOT be approved.

2. That FY-86 animal welfare funding for the USDA, Animal and Plant Health Inspection Service, Veterinary Services be maintained at the FY-85 level of $4.7 million.

3. That FY-86 brucellosis eradication for the USDA, Animal and Plant Health Inspection Service, Veterinary Services be maintained at least at the FY-85 level of $73 million.

NATIONAL MILK PRODUCERS FEDERATION

STATEMENT OF NORMAN BARKER, PRESIDENT

ACCOMPANIED BY JOHN ADAMS

Senator BURDICK. Our next witness is Norman Barker, president of the National Milk Producers Federation [NMPF].

Mr. BARKER. Thank you, Mr. Chairman.

Senator BURDICK. Welcome to the committee.

Mr. BARKER. I am Norman Barker, a dairy farmer from Pratt, KS. We market our milk through Associated Milk Producers, Inc.

I am president of the National Milk Producers Federation, which represents virtually all the milk cooperatives in the country.

Mr. Chairman, we have a prepared written statement that we would like to have made a part of the record, if we might.

Senator BURDICK. It will be made a part of the record without objection.

[CLERK'S NOTE.—Mr. Barker's prepared statement appears at the conclusion of his oral testimony.]

Mr. BARKER. Thank you.

We are, indeed, glad to have this opportunity to express the concerns of our organization on the budget requests for both the Department of Agriculture and the Food and Drug Administration for fiscal year 1986.

We believe that the Agricultural Cooperative Service needs, at a minimum, appropriations of $5 million in order to staff and run the agency to meet the current demands.

Last year, cooperative leaders proposed a study of ACS, and the National Milk Producers joined with the National Council of Farmer Cooperatives and invited a representative group of co-op leaders to conduct a review.

National Milk's funding request is based on that study and we would like to submit a copy for the record.

[CLERK'S NOTE.—The study appears following the NMPF's prepared statement.]

We do urge report language, and if necessary, increased funding, to secure adequate enforcement of food standards by the Food and Drug Administration. FDA is mandated by law to enforce matters relating to misbranding, regardless of the budgetary restraint.

Because of the agency's unwillingness to enforce the law, we request the committee develop language which would direct the allocations of resources to provide surveillance of misbranding practices.

These practices not only deceive and defraud consumers but also present the prospect of lost markets for agriculture producers.

We do compliment the committee for the past support of child nutrition programs. We urge: funding of these programs at levels sufficient to maintain present participation levels; reestablishment of the Special Milk Program to serve all eligible children; expansion of the WIC Program to serve all eligible women and children; and maintenance of the School Breakfast, Child Care Feeding and Summer Feeding Programs.

Milk products served in these programs are an essential nutrient source for children, especially for calcium, phosphorous, riboflavin, and protein, so important to healthful development.

Cutting out the nonneedy child from the School Lunch Program, for example, will place many schools at risk in eliminating the program entirely. When this happens, needy children suffer because they have lost the opportunity for the federally assisted meal.

We do appreciate this committee's past support for adequate funding of the Brucellosis Eradication Program. The conference agreement last year to fund this program at $73.4 million was based on the need to maintain an effective level of that quality, tougher surveillance, accelerated depopulation, and increased vaccination.

If this level is not maintained, the $1.4 billion spent previously would be money thrown away.

In addition, we request that the Dairy Indemnity Program, slated by the administration for elimination, be funded at $200,000. This program has not been expensive over the years, but it really has meant the difference between continuing in the dairy business and being forced out by circumstances beyond the farmer's control.

The federation recommends restoration of $5.7 million for the Cooperative State Research Program of competitive grants for animal health and disease research. If provided, this funding could serve the greatly reduced losses associated with reproductive diseases, mastitis, respiratory diseases, brucellosis, Johne's disease, and other digestive-related diseases.

We also request that the Congress initiate a careful review of the proposed budgets for the Agricultural Research Service and the Cooperative State Research Service. These budgets establish an unreasonable priority for plant research funding, as opposed to funding for animal research.

In addition, we would like to see primary emphasis placed on support of basic research within the Agricultural Research Service and Cooperative State Research Service to expand the utilization of milk products.

As we have in the past, the federation supports adequate funding to encourage interdisciplinary scientific and extension programs that would develop efficient systems for producing, processing, and marketing agricultural products.

The federation urges the committee to strongly encourage the Agricultural Research Service, Cooperative State Research Service, and the Extension Service to coordinate their efforts to solve the complex problems which confront animal agriculture.

We appreciate the opportunity to present these comments today, and we do have the prepared, detailed statement that we indicated earlier.

Thank you, Mr. Chairman.

Senator BURDICK. Thank you.

You testified to the unwillingness of the FDA to enforce matters relating to the misbranding of food. Now—you can supply this for the record, if you want to—but can you give some specific examples of the lack of enforcement in this area and of what magnitude the problem is?

Mr. BARKER. Mr. Chairman, I have Mr. John Adams on our staff who works very closely with the agency, and I would call upon him to present specifics, if I might.

Senator BURDICK. OK.

Mr. ADAMS. Mr. Chairman, we would be happy to submit for the record, specific examples of what we reference in our testimony.

Basically, our concern is that from a priority standpoint, matters relating to economic deception are put on the bottom of the ladder over at FDA. This carries through in terms of the enforcement given to not only standardized food, but also foods that purport to resemble or imitate standardized food, many of the new imitation products.

The current FDA rules permit these products to carry the labels, "substitute," if they are nutritionally equivalent to the food that they purport to resemble.

What we are seeing in the marketplace is the opportunity to utilize a number of the FDA provisions of regulations governing food labeling to develop labels that are confusing or misleading, and it is in this area that we are asking the committee to give some attention and direction to FDA.

And we would be happy to supply, for the record, specific examples of what we reference.

[The information follows:]

FOOD AND DRUG ADMINISTRATION'S IMITATION FOOD LABELING REGULATIONS

The following products are examples of current marketplace deception permitted by FDA's imitation food labeling regulations:

1. "Touch of Butter Spread"--Vegetable Oil Butter Spread, 50 percent Fat (Manufactured by Kraft Inc.).

   This product represents a major limitation of FDA's current imitation labeling policy. Since neither calories or fat are considered in determining nutritional inferiority, a product reduced in fat content which purports to resemble foods such as butter or margarine do not have to be labeled imitation. In fact, Kraft's "Touch of Butter" is an imitation three times removed from butter, i.e., an imitation of 60 percent spread, which in turn is an imitation of margarine which is an imitation of butter. The consumer has no concept as to the identity of the product in relation to a similar commonly standardized food such as margarine or butter. At the very least, this product should clearly declare the percent of vegetable fat and milk fat it contains. The word "butter" is mentioned on the principal display panel three times, yet the actual butter content of the product is very small. After all, what is a "touch"?

2. "EGG Beaters With CHEEZ' (Manufactured by Fleischmann's).

   This product is made with imitation cheese. The statement "CHOLESTEROL FREE 99 percent real egg Product with low cholesterol Imitation Cheese" appears at the bottom of the display panel in smaller type size and different, less noticeable, color than the word "CHEEZ". The consumer is clearly misled by the fanciful term "CHEEZ" declaration. If the food contains imitation cheese, the product name or descriptive phrase accompanying the name or descriptive phrase accompanying the name should say so. The only possible purpose served by the word "CHEEZ" is to deceive the consumer by attempting to indicate to them that the product contains real cheese. (i.e., foods such as Cheez-Whiz are real cheese spread products).

3. "KING SOUR Non-Butterfat Sour Dressing" (Manufactured by American Whipped Products, Inc.).

Once again, the obvious limitations of FDA's nutritional inferiority policy results in consumer deception. This product is exempt from imitation labeling since only a change/reduction in total fat occurs. It purports to replace sour cream but contains less calories and fat, and appears side-by-side with real sour cream products in the display case.

4. "Cool Whip Extra Creamy Dairy Recipe" -whipped topping. (Manufactured by Birds Eye).

The fat content of this product is, by far, predominantly vegetable fat. The percent real cream should be specifically listed on the front panel as part of the name. Furthermore, this product is commonly known as "whipped topping," but the term "whipped topping" is in extremely small type size. More emphasis should be placed on informing the consumer as to the identity of the product (e.g., Whipped Topping with ___ percent vegetable fat and ____ percent milkfat, in type size at least half the size of the name Cool Whip).

5. "N-Rich Coffee Creamer" (Manufactured by Beatrice Foods).

This product is predominantly sugar. Logic would dictate it be called "coffee sweetener" long before "coffee creamer", considering it contains no real cream or any real dairy product. Since the product appears in powdered form it is considered different from real cream and exempt from proper imitation labeling. However, the purpose of the product is clear, (i.e., to replace the real cream used in coffee).

6. "I.T. Instant Taste - Butter Spray Popcorn Flavoring."

This is an artificially flavored product containing no salt, no cholesterol and no butter. It cannot be considered a "butter spray" since it contains no butter, but instead, as quoted in the ingredient statement, is made with "Non-cholesterol vegetable oil (versus vegetable oil with cholesterol?) To be informative the product should be labeled, "Instant Taste - Artificially Flavored Popcorn Spray."

7. "Frosted" - melloream beverage (very small type size) - strawberry, artificially flavored. (Manufactured by BORDEN).

"Melloream" is an undefined term to the consumer. This product is a very sweet, thick beverage purporting to resemble a milk shake. However, it contains no milkfat. The term "melloream" does not tell the consumer this is an imitation milk shake. To avoid deception, additional labeling is necessary. For example; "Frosted" - An Artificial Milk Shake Replacement Product.

Senator BURDICK. OK, fine. In recommending a reduction in the brucellosis eradication funding, the President's budget says that States with high incidence rates should start paying more of the costs of the eradication program within their boundaries. How do you feel about this? Mr. Barker.

Mr. BARKER. I call on Mr. Adams.

Mr. ADAMS. Mr. Chairman, the idea of shifting the total burden to the States is unacceptable to us at this point in time, because we haven't achieved the reduction in infection rate or the degree of adequate surveillance in terms of adjacent herd testing and epidemiological support and laboratory support that we need in the high-infected States.

If we shifted the total burden over to those States, it would be somewhat inequitable to their producers, because these are longstanding problems that require Federal support from the standpoint of providing expertise in the epidemiological support areas, the laboratory support areas, and the field surveillance work.

While some of the States are willing to participate on an equal basis and to work with the Federal Government, we feel like we need to continue to transfer resources from the overall program into those States, and we are just not ready at this point to completely pull out the Federal support that is needed.

Senator BURDICK. What is your industry doing in the area of agriculture research?

Mr. BARKER. Mr. Chairman, in a general way—and I think Mr. Adams can answer that more specifically—through many of the State agriculture colleges we encourage and do participate in some grants with those schools.

I could be more specific in the States that I am more familiar with.

Mr. ADAMS. That is true, Mr. Chairman, we do a lot of supporting of the work going on at the agricultural experiment stations in the various States. We are very supportive of the development of the National Forage Laboratory in Madison, WI.

Our particular needs, at this stage, are basic research to be conducted through ARS and the land-grant experiment stations, and the applications of the new biotechnology mechanisms that are available to us today to solve some of our more complex utilization problems.

We, in the industry, do a lot of the research relating to applied research and product research and development, coming up with new products or extending present products, improving present products.

What we really need is the application of the basic research that will help us transform, from a basic standpoint, the composition of our products so that they might be better utilized to the benefit of the American people.

Senator BURDICK. What is your organization's position on the issue of antibiotics in animal feed?

Mr. ADAMS. Our position is very simple. The antibiotics are a necessary part of the therapeutic treatment of dairy cattle and the prevention and treatment of diseases related to dairy cattle, and that without the benefit of animal drugs, we would find less efficiency and more increased cost in our production units.

We are very concerned, however, about the presence of antibiotic residues in our products, and therefore we place great emphasis on residue prevention. We do a lot of testing for antibiotics in our milk supply, and we are doing everything possible to try to educate dairymen as to good management practices in the prevention of antibiotic residues.

Senator BURDICK. Senator Bumpers, do you have any questions?

Senator BUMPERS. Are you Mr. Barker?

Mr. BARKER. I am, Senator.

Senator BUMPERS. You must be Mr. Barre then, is that right?

Mr. ADAMS. I am Mr. Adams.

Senator BUMPERS. What was your name again?

Mr. ADAMS. John Adams.

Senator BUMPERS. That is a very distinguished name. If I'm not mistaken, he's the only guy who ever ran for the House of Representatives after being in the Senate.

Let me ask you, did you see the Wall Street Journal article yesterday on meat imports?

I was late for the Cattlemen's Association's testimony. And I apologize for that.

But since you are here, let me ask you, did you read the Wall Street Journal yesterday on the rising tide of beef and dairy products in this country?

Mr. ADAMS. Yes, I did glance through that article. Yes, I did.

Senator BUMPERS. Does your organization have a position on that?

Mr. ADAMS. Well, we are very much opposed to increased imports of products, particularly meat products, from foot and mouth infected countries, and we have always supported a budget for APHIS in that area so that we would assure ourselves of freedom from imports from foot and mouth infected countries. This is one of our greatest concerns.

As for overall imports, we have a very basic position that our level of imports should not impact our basic domestic dairy policy by interfering with our section 22 quotas.

And I will let Mr. Barker elaborate on that. But it is very basic to our industry that we maintain the section 22 quotas for milk products.

Senator BUMPERS. Mr. Barker.

Mr. BARKER. Senator, I am not certain that I understand. I didn't read the article that you referred to.

Senator BUMPERS. Let me tell you, one thing it pointed out is that meat imports this year are going to double—in 1985, are going to double over 1984, which were already climbing at a time when beef producers, especially, were expecting an increase in prices.

I am a former beef producer myself, and I follow it fairly well. It looks like now prices are not only not going to rise, they are probably going to decline. This is true of pork, also.

Mr. BARKER. We feel very much that there should be a restraint of beef imports into this country.

As you know, dairy beef comprises a substantial part of the total beef supply in the country, approximately 20 percent. We are very interested that that not occur.

Senator BUMPERS. What are milk price supports right now, $10.50?

Mr. BARKER. No, $12.10.

Mr. ADAMS. $12.10.

Senator BUMPERS. $12.10. It was $12.60, wasn't it? You lost $.50?

Mr. BARKER. That's correct.

Senator BUMPERS. Now, what is the President proposing in his budget on dairy price support? Do you know?

Mr. BARKER. Yes, I do. He is proposing a reduced level and a gradual elimination of the entire support system.

Senator BUMPERS. What is he proposing for 1985 in reduced level?

Mr. BARKER. I believe he is proposing about $11.60 with decreases—if I could read it here, it would be more accurate.

Senator BUMPERS. Is your organization supposed to represent all the milk producers in the country?

Mr. BARKER. Yes, Senator.

Senator BUMPERS. OK.

Mr. BARKER. We represent about 80 percent, the major part of the milk produced.

Senator BUMPERS. Do you represent AMPI?

Mr. BARKER. Yes; I am Secretary of the AMPI board.

Senator BUMPERS. OK.

Go ahead and read those findings into the record.

Mr. BARKER. Secretary Block's proposal would set dairy supports at $11.60 on October 1, 1985, at the end of this marketing year. On April 1, 1986, if the purchases are expected to exceed 5 million pounds, supports would go to $11.10 or a $.50 reduction.

Then a similar feature on January 1, 1987, requires a reduction to $10.60 per hundred. After that the proposal provides for direct payment to producers based on the average price for the preceding 3 years, starting at 90 percent of this level in 1988 and dropping 5 percent per year for the next 3 years.

In other words, it would abolish the price support system.

Senator BUMPERS. I take it that you are opposed to that?

Mr. BARKER. Yes; we are very much opposed, Senator. We don't believe that that is in the dairymen's interest, or the public's interest either.

Senator BUMPERS. Are you satisfied at leaving it at $11.60?

Mr. BARKER. I don't think we can answer that we are satisfied, but we have a proposal that we believe would help bring production more in line with demand and allow for——

Senator BUMPERS. What was production in 1984?

Mr. BARKER. About 137 billion pounds.

Senator BUMPERS. 137 billion?

Mr. BARKER. Correct.

Senator BUMPERS. How much did the Government buy?

Mr. BARKER. About 10 billion, I believe. I would have to consult. We have some experts here.

Senator BUMPERS. Do you know, Mr. Adams?

Mr. ADAMS. I believe it was about 8 billion pounds.

Senator BUMPERS. About 8 billion pounds of the 137 billion pounds?

Mr. ADAMS. Right.

Senator BUMPERS. What is your association doing, if anything, to bring milk production down? Are there any restraints right now on anybody going into the business?

Mr. BARKER. None, as such.

Senator BUMPERS. Anybody can go into the business, the dairy business, right now, if he wants to?

Mr. BARKER. Correct.

Senator BUMPERS. And get into the program?

Mr. BARKER. Yes, they can.

Senator, if I might answer that. We have just ended, the end of March, a diversion program, which did help bring production into—more nearly into line with demand, and a substantial reduction and reduced cost to the Government by over $1 billion.

We have, as the federation recommended, a similar program to continue to help bring production more into line with demand. We believe it would work.

Senator BUMPERS. I won't go into that with you right now. I will get with my AMPI people in Arkansas and go over it with them.

Mr. BARKER. OK.

Senator BUMPERS. Do you remember the old base program that we used to have?

Mr. BARKER. Yes, sir, very much, in the old southern region or MPI.

Senator BUMPERS. You know, I thought that worked pretty well. I thought it unjustly enriched some people. My father-in-law got rich out of it. But I think that program worked, and it could be revised to the point where it could work again. I am not suggesting that we go back to it, and I am not going to introduce a bill to go back to it. After all, I think you could probably do that with Justice Department approval right now.

There is a little bit of restraint of trade involved with that thing, but as long as it didn't restrain production too much, I thought that system worked reasonably well.

Now, we are headed toward the same thing in the dairy industry that we are headed for in rice, cotton, and soybeans; that is, if that bill passes, you are headed for the extinction of the dairy industry also.

Let me go to brucellosis for just a moment. The cattlemen's statement said something here—I think it must be wrong, Mr. Chairman, it said the President's budget reduced spending for the brucellosis program by $14.9 million. I guess, that is right.

Do you oppose that cut in brucellosis funds?

Mr. BARKER. Yes, we do. I have not seen the cattlemen's testimony, but we have a statement advocating——

Senator BUMPERS. Well, you are advocating $73,400,000?

Mr. BARKER. That's correct.

Senator BUMPERS. How many States in this country are C-rated right now, do you know?

Mr. BARKER. I think Mr. Adams knows.

Senator BUMPERS. Do you know, Mr. Adams?

Mr. ADAMS. I don't have that at my fingertips.

[Subsequent to the hearing, the NMPF submitted the following in response to this question:]

The class C States are: Texas, Arkansas, Louisiana, Florida, and Mississippi.

Senator BUMPERS. I know one that is.

Mr. ADAMS. Yes; there are too many, Mr. Bumpers, but the point of our testimony is that if we don't hold the line at $73,400,000, there is no chance to make major progress in the highly infected States. This is terribly important because now we are showing progress.

Senator BUMPERS. That's right.

Mr. ADAMS. We need to continue that. This is no time to be reducing the funding level. We are going to deny the progress that we have already made, and we are going to put in jeopardy all the funds that have been spent heretofore to make this progress.

Senator BUMPERS. You know there is really no reason for not wiping out brucellosis in this country.

My wife has always been real active in immunization programs. You know, we've just about got a lot of childhood diseases eradicated in this country because she and others made an effort to get it done. We can do the same thing in brucellosis, if we would just do it.

Mr. ADAMS. We are well on our way, and if we could adequately fund this program up front as we have recommended, over a 5-year period, the administration would like to phase this program out in 5 years. We would like to see it phased out, also.

The point is, however, unless we adequately fund it now and in the next couple of years to continue the accelerated eradication efforts in highly infected States, we can't phase this program down in 5 years.

Senator BUMPERS. If we do what the President wants in this program, we are going to wind up right back where we started from.

Mr. Chairman, I will just close with this statement: Last year, when Arkansas was threatened with a quarantine, which would cost our cattle farmers no telling how many millions of dollars, we really got hot—and you know, as bad as government is, sometimes government does good things.

I asked for and got a Federal task force to come into my State to restart our Brucellosis Eradication Program with a bang.

I will tell you something, you will not get a cattle farmer in the State to tell you that that wasn't one of the finest efforts that they had ever seen. They got great cooperation from the farmers.

They were professionals. They went onto the high incidence farms, tested literally hundreds and hundreds of herds in the big counties where the brucellosis was the most rampant, and did a magnificent job.

Mr. ADAMS. Well, Senator, we certainly appreciate your support.

Senator BUMPERS. Thank you, Mr. Chairman.

Senator BURDICK. Will the Senator yield?

Senator BUMPERS. Certainly.

Senator BURDICK. I think it is very important to correct history here. You made a statement that this man Adams was a Senator and then became a House Member.

Senator BUMPERS. Well, I take that back. He was President and then ran for the House of Representatives.

Senator BURDICK. Well, anyway, you are still wrong, because there is a man by the name of Pepper, who was a Member of the U.S. Senate——

Senator BUMPERS. You are right.

Senator BURDICK [continuing]. And became a Congressman.

Senator BUMPERS. I have done that once before. I am worse than the President. Thank you all.

Senator BURDICK. Thank you very much.

Senator BUMPERS. Thank you, Mr. Chairman, for straightening me out on that.

[Mr. Barker's prepared statement and the report referred to in his testimony follow:]

Statement of Norman H. Barker

We are pleased to have this opportunity to comment on the budget requests for the agencies of the U.S. Department of Agriculture as well as activities of the Food and Drug Administration. Specific recommendations contained in our statement include:

(1) An increase in funding and staffing levels to permit the Agricultural Cooperative Service to maintain adequate levels of operation.

(2) Report language and, if necessary, increased funding to secure adequate enforcement of food standards by the Food and Drug Administration.

(3) Funding of Child Nutrition Programs at levels sufficient to maintain present participation levels, re-establishment of the Special Milk Program to serve all eligible children, expansion of the WIC program to serve all eligible women and children and maintenance of the School Breakfast, Child Care Feeding and Summer Feeding Programs.

(4) $73,400,000 for maintaining adequate funding to continue accelerated Brucellosis eradication effects in the more highly infected states.

(5) $200,000 to meet obligations under the Dairy Indemnity Program unless additional funds are requested to meet a widespread contamination problem.

(6) The Federation recommends restoration of the $5,760,000 item for the Cooperative State Research Service program of competitive grants for animal health and disease research.

AGRICULTURAL COOPERATIVE SERVICE

The Agricultural Cooperative Service of USDA is the only Federal agency charged with responsibility to assist agricultural cooperatives and their farmer owners in dealing with organizational, operating and management problems.

At a time when the income situation faced by American farmers has deteriorated steadily, there is greater need than ever for strong, effective cooperatives to assist farmers in holding the line on production costs and in obtaining the best return available in the market. Unfortunately, like their farmer members, many cooperatives today find themselves under increasing strain as a result of the chaotic state of the farm economy.

This certainly is not the time to seek to reduce funding for this small but essential agency. The administration proposed cutbacks for ACS would preclude the agency from responding to the needs of farmers and their cooperatives at a time when such aid is most needed.

The demands placed on the agency have increased over the past few years. The changing conditions under which cooperatives operate, the increasingly critical state of the farm economy and the desire of new groups within agriculture to avail themselves of cooperative marketing and supply arrangements have all contributed to this increased demand. Unfortunately, the agency has been hard-pressed to respond to these needs with present staffing levels. The proposed fund reductions would make such response totally impossible.

The resources of the agency represent the greatest concentration of skill and knowledge concerning agricultural cooperation in the United States if not in the world. Its activities in the past few years which have touched the operations of farmers, producers of specialty crops with unique marketing problems, and low resource producers can mean the difference between continuing in business or being forced from the farm.

While it is true that some cooperative enterprises have achieved a size that allows them to perform much of the work which they once relied on ACS or its predecessor organizations to perform, most of the agricultural cooperatives in the United States remain small operations lacking the resources or expertise to accomplish these tasks.

The National Milk Producers Federation recommends that, at a minimum, Agriculture Cooperative Service Funding should be appropriated at $5 million to permit the agency to recover lost staffpower. The agency has suffered a 30 percent cutback in staffpower over the last four years. At a funding level of $5 million the agency staff could region part of lost personnel to a 85 to 90 staffyear level.

FOOD AND DRUG ADMINISTRATION

We urge the Committee to continue to investigate the extent to which the Food and Drug Administration is fulfilling its obligations under the Food, Drug and Cosmetic Act to enforce standards of composition and identity for many traditional foods. Lack of enforcement on the part of the agency creates the opportunity for fraud and deception in the marketplace, defeats the purpose of the Act, injures the consumer and presents the prospect of lost markets for agricultural producers.

We would hope too that the Committee would look further into the present situation with regard to FDA's inconsistent application of its imitation food labeling regulations. We have found many products in the marketplace labeled improperly under current regulations. Not only does FDA's ill-conceived nutritional equivalency policy promote consumer fraud and deception, but the lack of enforcement which now exists permits manufacturers to utilize highly questionable interpretations of current regulations. These matters have been brought to the attention of the agency on numerous occasions with no effective response. FDA maintains that such enforcement is a low priority of the agency and that a lack of resources will force continued assignment of a low level priority to such work.

FDA is mandated by law to enforce matters relating to misbranding regardless of budgetary constraints. Because of the agency's unwillingness to enforce the law, we request the Committee to develop language in its report directing the allocation of resources to provide surveillance of misbranding practices where the identity of a food is promoted or compared with a food for which FDA administers a standard of identity, and to strengthen the current food standards program in an attempt to protect manufacturers and consumers from fraud and deception in the marketplace.

FOOD AND NUTRITION SERVICE

The National School Lunch Program is the cornerstone of our child nutrition efforts. The effectiveness of this program, indeed all of the child nutrition programs, has in large measure been due to the efforts of this Committee over the years to maintain the programs to operate at highly effective levels. We fully support adequate funding for the School Lunch Program to maintain its ability to meet the demands placed on it and that all children in the United States should have access to the National School Lunch program, regardless of family income levels. The intervention of federal money into the program in the form of both cash and commodity assistance to all children provides federal governance of the nutritional quality of the meals served and provides an incentive for all children to chose to take this nutritionally balanced meal providing 1/3 percent of the minimum dietary allowance.

The combination of the curtailment of availability of the Special Milk Program several years ago and changes in the School Lunch Program has sharply reduced fluid milk consumption by school children. Federation members report that milk use in schools has dropped 20 to 70 percent during this period. This is alarming as milk is an essential nutrient source for children especially essential as a supplier of calcium, phosphorus, riboflavin and protein so important to healthful development during a child's growing years. The Federation supports reinstatement of the Special Milk Program to encourage additional milk consumption in the schools. Should this legislation be adopted, it is estimated that funding of $100 million would be required to meet the demands of the program.

The Child Care Feeding Program, the Summer Feeding Program and the School Breakfast Program meet important needs in the overall child nutrition plan. Sufficient funding for the Child Care Feeding Program is necessary to assure availability to the children of the working poor who are forced to leave their children in day care centers for extensive periods of time from breakfast through dinner.

The WIC program is an example of a highly effective program dealing with one of the most critical nutritional needs of the nation. Full funding for this program providing supplemental food service to all eligible pregnant and lactating women and their children and infants is wholely supported by the dairy industry.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

We appreciate this Committee's past support for adequate funding of the Brucellosis Eradication Program. The Conference agreement last year to fund the program at $73,400.000 was based on the need to maintain an adequate level of finding that would support an effective level epidemiology, tougher surveillance, accelerated depopulation and increased vaccination.

In supporting the Conference Agreement, Congress recognized that as you make more progress to eradicate Brucellosis, you must be willing to adequately fund field surveillance work and epidemiology to be able to seek out the remaining pockets of infection. As you eradicate and make progress in reducing the infection level, it becomes more and more difficult to find remaining sources of infection. When progress is being made, it is a poor investment to reduce funding when more funding may be needed to carry out an accelerated effort, particularly in the more highly infected states.

If the administration's proposals were to be adopted, we can visualize the Brucellosis accelerated program efforts in the more highly infected states suffering. Overall progress would be impeded and within five years, sources of reinfection would begin to break-out in the Class A and Free States.

It is imperative that the level of funding for the Brucellosis Eradication Program be maintained at the current $73.4 million level to provide USDA the opportunity to meet the specific goals established by the Congress for this program last year. The Federation will vigorously oppose any efforts to reduce the Brucellosis Eradication Program or "phase-down" the program budget until we have achieved free status for 50 percent of all states, and we have reduced the infection rate to less than 25 percent. Unless we are willing to fund this program to continue to make progress toward these eradication goals and carry out the known steps which are required to achieve these goals, then the previous public investment of over 1.4 billion dollars to eradicate brucellosis is in jeopardy.

DAIRY INDEMNITY PROGRAM

Once again this year, the budget request eliminates funding for this program as was the case with the administration's FY 1985 budget request. While milk indemnity payment outlays have been relatively modest in recent years, nevertheless, the availability of such funding has meant the difference between continuing in the dairy business and being forced to disperse their operations for the effective dairymen. We continue to recommend $200,000 be made available for this program. While the need may not occur routinely, the purpose of the program is to have funding available in the event of a contamination problem inadvertently caused as the result of unusual, natural whether conditions or human failure due to no fault of the dairymen or manufacturer of dairy products.

AGRICULTURE RESEARCH

The Federation requests the Congress initiate a careful review of the proposed FY 1986 Agriculture Research Service and Cooperative State Research Service budgets which establish an unreasonable priority for plant research funding as opposed to funding allocated for animal research.

While cash income from livestock and products equal or exceed cash income from crops, only one-third of research funds available go to animal research projects. Approximately one-third of the total reductions in Cooperative State Research Service funding have been allocated to Animal Health research. The Administration has failed to support adequate funding for Animal Health and Disease Research (Sec. 1433 P. L. 95-113) as well as competitive grants for Animal Health. Once again this year, the Administration has failed to request funding for restoration of the $5,760,000 item for animal health and disease research competitive grants. This funding, if provided, would serve to greatly reduce losses associated with reproductive diseases, mastitis, respiratory diseases, brucellosis, Johnes Disease and other digestive related diseases.

As various government agencies, including the USDA, support studies on diet and health which attempt to lay a scientific basis for redirecting eating habits away from animal products, more priority should be given to research on animal commodity conversion, utilization and delivery. We see no priority of research being established to aid in the nutritional utilization of animal products. Primary emphasis should be given to the support of basic research within the Agriculture Research Service and Cooperative State Research Service to expand utilization of milk products.

As in the past, the Federation supports adequate funding to encourage interdisciplinary scientific and extension programs that will develop efficient systems for producing, processing and marketing agriculture products. The Federation urges the Committee to strongly encourage the Agriculture Research Service, Cooperative State Research Service, and Extension to coordinate their efforts to solve the complex problems confronting animal agriculture.

A Review of the Agricultural Cooperative Service

ACS REVIEW

In early 1984, cooperative leaders proposed that a study of the Agricultural Cooperative Service be conducted to review the work of the agency and make recommendations for its future. Consequently, the National Council of Farmer Cooperatives and National Milk Producers Federation jointly invited a representative group of cooperative leaders to serve on a Review Committee.

The Review Committee held a series of meetings in the fall of 1984 including a hearing and additional sessions with ACS staff. This report describes the findings of the ACS review.

Those participating on the Review Committee were:

Joe Coffey, Southern States (Chairman)

Paul Brower, Gold Kist, Inc.
Nancy Kantola, Kansas Cooperative Council
Vern Moore, Land O'Lakes, Inc.
Bill Pettit, Central Bank for Cooperatives
Carl Zurborg, Swiss Valley Farms

I. Executive Summary and Recommendations

1. Recommendation: The Agricultural Cooperative Service should be maintained as a separate agency within the U.S. Department of Agriculture. (See pages 8-9)

2. Recommendation: The mission of the Agricultural Cooperative Service is: "To improve the economic and social well-being of farmers and ranchers by assisting them in the development of viable, efficient and effective agricultural cooperative institutions." In addressing this mission, the agency must focus on emerging issues and trends that affect agricultural cooperatives and identify means of capitalizing upon the changes or ways in which their adverse impacts will be lessened. (See pages 9-10)

3. Recommendation: The Review Committee has defined three basic areas of activity for the Agricultural Cooperative Service. They are: (1) Research, analysis and statistical information; (2) Cooperative education, information and history; and (3) Technical assistance.

The research focus should be on issues having primary relevance and the broadest possible application to agricultural cooperatives.

The education function should be aimed at meeting specific cooperative information needs and broadening knowledge of cooperative principles among farmers, government, and the general public. More emphasis should be placed on cooperative history as a means of understanding how cooperatives may be organized successfully and why cooperatives are important to agriculture and the public.

The technical assistance effort should address both new cooperative development in areas of specific need, and ongoing advice to existing cooperatives on restructuring, capital development, and other basic questions. (See pages 10-12)

4. Recommendation: The resources of the Agricultural Cooperative Service should be organized and employed in a manner that will allow the greatest possible outreach and leveraging of available resources. ACS should serve as a stimulator of efforts of other government agencies, land grant universities, state cooperative councils, cooperative trade associations, and operating cooperatives themselves. Avoiding duplication of effort and achieving maximum results must be the criteria for the development of ACS limited resources. (See pages 18-20)

5. Recommendation: As a means of providing an ongoing assessment of the needs of the agency and to provide guidance in terms of emerging issues, a representative group of agricultural cooperative leaders should meet regularly to review the programs and needs of the Agricultural Cooperative Service. This would be an informal process conducted by organizations representing agricultural cooperatives. (See page 14)

6. Recommendation: Consistent with the Office of Personnel Management requiremenfs, ACS should be organized with three operating divisions along functional lines: (1) Research, analysis and statistical information; (2) Cooperative education, history and (3) Technical assistance. This is not seen as a rigid compartmentalization of duties or tasks. In performing research and technical assistance, a task force approach is recommended.

Increased research emphasis is recommended in the area of public policy as it impacts cooperatives. The Department of Agriculture and other government agencies need to be made aware of the impact that various policy decisions may have on cooperatives. Development of a "cooperative impact statement" could address this need.

More needs to be done to make the cooperative community aware of information available through the agency.

The provision of technical assistance is an ongoing need. More can and should be done to involve the Extension Service in this work. The use of resources in field offices should be carefully evaluated. (See pages 15-17)

7. Recommendation: If a user fee plan is implemented, it should be constructed so that those with ability to pay for technical assistance which is specific and limited in application would bear the cost of the service. With respect to publications, one free subscription to the monthly magazine, Farmer Cooperatives, should be available to all cooperatives with additional subscriptions on a fee basis. For other ACS publications, one free information copy should be made available, with a charge for additional copies consistent with other USDA agencies. (See pages 17-18)

II. Background Information

Cooperatives Are Important to Agriculture

The cooperative enterprise has been a major feature of American agriculture throughout our history. Agricultural cooperatives represent the joint efforts of producers to assure availability of markets, inputs, and services. Cooperative marketing associations are the essential means by which farmers gain equitable access to the marketplace. The driving force behind creation of cooperatives has been varied. In some cases cooperatives may represent the most expeditious means of accomplishing a necessary task. Often cooperatives have represented a means of providing countervailing forces in the markets on which producers rely. Cooperatives, created by farmers, have essentially been the result of the producer's need for particular products or services.

Cooperatives are self-help efforts intended to address the needs of their membership for goods or services. The widespread use of cooperatives in agriculture is in response to farmers' need for services that would not, or could not, be made available to rural communities. Cooperatives also provide expanded competition in markets for farmers' products and inputs needed for agricultural production.

The self-help nature of cooperatives is particularly significant at the present time when agriculture faces an economic crisis, and there are limited resources for direct governmental assistance to agriculture. Farmers faced with a combination of depressed product prices and rising production costs look to their cooperatives for the best possible return on their products, and for competitively-priced farm inputs. The cooperative enterprise represents an off-farm extension of the farm business.

In 1983, cooperative marketing associations provided markets for commodities valued at more than $49 billion or about one-third of products marketed. Farmers purchased almost $16 billion or 20% of their inputs from their supply cooperatives. In addition, trucking, ginning, storage and other services valued at almost $1.5 billion were provided by farmer cooperatives during 1983.

About 71 percent of farmers are members of at least one cooperative. In total, some 5,985 cooperatively-owned businesses operated on behalf of their farmer-owners in marketing their production, meeting their need for fuel, fertilizer, seed and other inputs and providing essential farm services in 1983. This does not include the activities of the cooperatively owned Farm Credit System, or the operations of rural electric cooperatives, rural telephone cooperatives or rural water systems.

Cooperatives Meet Changing Needs

The cooperative of the 1980's is a vastly different organization than its predecessor of the post World War II era. As technology has transformed American agriculture and its markets, the same factors have shaped the development and growth of cooperatives. An increasingly sophisticated farmer places greater demands on his cooperative. Broadening the marketplace from local to regional, national and international has required a change in marketing strategy, broader knowledge of markets, financing, transportation and a myriad of other factors.

Public awareness of cooperatives and their role in American agriculture appears quite limited or distorted in view of the vital role they play. For example, attention is often drawn to the "billion dollar cooperative", leaving the impression that this is the standard. Yet, of the nearly 6,000 farmer cooperatives doing business in 1983, only 13 had a dollar volume of $1 billion or more. Typically, the farmer cooperative is a relatively small organization. More than 90 percent of cooperatives operating in 1983 had and annual business volume of less than $15 million. Membership averaged 827 per cooperative association.

The cooperative is distinct from other types of business organizations because of:

1. Operations at cost. Savings are distributed or allocated in direct proportion to the patronage of each member.
2. Democratic control by the membership.
3. Limited returns on capital.

These factors clearly establish the cooperative as a self-help effort by which the farmer addresses economic and other needs faced in marketing his production, acquiring his farm inputs, and assuring credit and other essential farm services.

Assisting agricultural cooperatives is of benefit to the general public. The public benefits when farmers use cooperatives to improve marketing efficiencies and thereby maintain an abundant and wholesome supply of food and fiber.

At a time when Government policy is trending away from direct price and income support, USDA should help farmers achieve improved incomes and market access by placing a stronger emphasis on their cooperatives. Farmers can use cooperative action to improve their marketing system, develop new products and markets, and continue to lower their production costs.

ACS can use its national vantage point to assess needed changes in the cooperative system. These adjustments could include further coordination of efforts to achieve sufficient scale of operation, assume additional marketing functions, and carry out expanded educational and training programs.

Historic Legislative Recognition of Cooperatives

As an element of its policy of maintaining a strong and viable agriculture, the Federal government has long recognized the need to assist and encourage farmers and their cooperatives. The legal basis for joint marketing efforts by farmers was established in the Capper-Volstead Act of 1922. The Cooperative Marketing Act of 1926 directed the Secretary of Agriculture to "render service to associations of producers of agricultural products..."

The latter statute formalized policies USDA had pursued since early in this century. The result was the creation of the Division of Cooperative Marketing in the USDA Bureau of Agricultural Economics in 1926. This activity exists today as the Agricultural Cooperative Service of the U.S. Department of Agriculture.

Cooperative Marketing Act of 1926

As approved by Congress, the Cooperative Marketing Act of 1926 represented a combination of directive and authorization. The Secretary of Agriculture was directed to establish a division of cooperative marketing to "render service to associations of producers of agricultural products, and federations and subsidiaries thereof, engaged in the cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, the cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities."

In carrying out this directive, a number of specific activities were authorized: (1) The collection, analysis, and dissemination of economic, statistical and historical information regarding the status and operations of cooperatives in this country and abroad; (2) The conduct of research on the economic, legal, financial, social and other phases of cooperatives, and publication of the results; (3) The conduct of surveys and analyses, if deemed desirable, of the operations of representative cooperatives at their request; (4) To advise groups of producers, if deemed advisable, that may desire to form a cooperative association; (5) To collect from all available sources information concerning crop prospects, supply, demand, current receipts, exports, imports and prices of agricultural products handled or marketed by cooperative associations; (6) To promote the knowledge of cooperative principles and practices; and (7) To make special studies in this country and abroad and disseminate such information as may be useful in the development and practice of cooperation.

Subsequent legislation reassigned the collection of crop supply and demand data spelled out in item five (5) to other agencies of the Department. With this exception, the seven basic authorities spelled out in 1926 remain in force today.

A strong case can be made for effective activity in each of the six remaining authorized areas of work. The growing complexity of markets in which cooperatives operate make it imperative that policy and management decisions be based on the best possible knowledge. The growth of cooperative organizations as they seek to be effective on behalf of their membership demands increased capital and improved management and communication within the organization. An understanding of the basic principles of cooperation, and the meshing of these principles with modern business practice is paramount. Assistance to producers in organizating new associations, or in restructuring existing associations to become more effective, is an ongoing need. In all of this, we must be aware of what is being done outside the United States, and the opportunities that exist to learn from the experience of others.

Each of these are tasks that must be accomplished. Others could be added to the list. In an era of limited government resources, the question is how best to organize and direct the available resources so as to most effectively meet the greatest need.

ACS Review Committee

Over the years, several in-depth reviews have been made of ACS and its predecessor agencies. In view of the budget and personnel limitations faced over the past several years, cooperative leaders proposed in early 1984 that such a study would be helpful.

Consequently, the National Council of Farmer Cooperatives and the National Milk Producers Federation jointly invited a representative group of cooperative leaders to serve on the Review Committee. The panel was charged with evaluating the services currently provided the nation's farmer cooperatives, including an assessment of the relative need for these services. The objective was to assist ACS in maintaining an effective level of assistance to cooperatives, and to help it and USDA leadership in setting priorities for agency activities.

During the review, specific attention was directed toward four primary areas of activity: (1) cooperative research and development; (2) technical assistance; (3) statistical and educational information; and (4) government policy analysis.

III. ACS Review Committee Report and Recommendations

Agency Status for the ACS

A major question regarding ACS and its predecessors has been its existence as a separate agency of USDA. During 1977-1980, the Farmer Cooperative Service was combined with the Economic Research Service and the Statistical Reporting Service, becoming a unit of USDA's Economics, Statistics and Cooperatives Services (ESCS).

At the time, concerned cooperative leaders were assured that agency consolidation would not lessen the visibility of what became the cooperative unit, nor would it downgrade the commitment of the Department to addressing cooperative needs. While strong efforts were made to meet these commitments, the lack of participation in policy staff sessions by the administrator (then deputy administrator of ESCS), the consignment of budget development and consideration to a larger agency, decreased visibility before Congress, and differences in objectives and focus with the other two units, resulted in strong pressures for reestablishing a separate agency devoted to cooperatives. This was accomplished through establishment of the Agricultural Cooperative Serviceas a separate agency reporting to the Assistant Secretary for Marketing and Inspection services.

A small agency suffers some disadvantage with respect to recognition of resource needs. Also a disproportionate amount of available resources may be devoted to housekeeping functions. However, the track record demonstrates that consolidation of ACS with Economics and Statistics was simply unworkable and counter-productive in terms of meeting its legislative mandates.

Maintain Separate Agency Status

In view of the advantages and disadvantages of agency status, the Review Committee very strongly recommends maintaining separate agency status. It recognizes that some administrative functions for ACS and other small agencies under the Assistant Secretary for Marketing and Inspection Services have been consolidated. This has helped address at least one of the primary drawbacks of a small agency. Further effort in this regard might be explored. Already a number of these savings have been achieved by consolidating these with APHIS.

One reason ACS should be maintained as a distinct part of USDA is because cooperatives are a major part of U.S. agriculture. In fact, cooperatives are an integral part of the economic infrastructure of American agriculture today. More than 70 percent of the nation's commercial farmers are members or users of at least one agricultural cooperative. Farmers market 40 percent of the nation's grain and oilseed production through their cooperatives. Over 70 percent of the milk and milk products produced in the country are marketed through cooperative associations. One-quarter of the fruit and vegetable production moves to market through cooperatives. Producers of wool and mohair, nuts, sugar and poultry are major users of cooperatives as the marketer of their production.

Cooperatives are also a primary source of farm inputs. In 1983, farm supplies valued at $16 billion were sold by agricultural cooperatives. Petroleum products, feed and fertilizer led the list of items purchased. Agricultural chemicals, building materials, machinery and equipment and seed were among other major inputs farmers acquired through their cooperatives.

A growing segment of cooperative business includes services related to farm operation or marketing such as trucking, cotton ginning, storage and feed preparation. In 1983, cooperative activities in these areas added almost $1.5 billion to business volume. In total, farmer cooperatives had a business volume of $66.7 billion in 1983.

But business volume does not, by itself, fully reflect the cooperatives significance and contribution to the rural or national economy. They have assisted their farmer-owners, and all farmers, in holding the line on production costs by increasing competition in markets for production inputs. They have increased farmers returns through increased competition in the markets into which his produce is sold. They have benefited consumers through increased competition in food markets, and improved efficiencies through the presence of cooperative marketing efforts.

In view of the central role of agricultural cooperatives in the economy, USDA would not be as effective in reaching its assigned responsibilities without an agency which fosters self-help among farmers and represents the interests of cooperatives and their farmer-owners.

Additionally, there are direct and obvious benefits flowing from agency status. As a distinct organization, ACS is brought to the direct attention the appropriate congressional committees when considering budget and appropriations matters. Lacking agency status, this consideration would be overshadowed or become lost in reviewing the needs of a larger, composite agency.

With agency status, the administrator is a direct participant in policy conferences. Thus he has direct access to the responsible Assistant Secretary. This provides an opportunity to make agency needs known directly. More importantly, it affords an opportunity to have input on possible policy alternatives affecting cooperative operations.

With agency status, the work performed has a higher level of visibility and it is also easier to assign accountability for ACS work quality and performance.

Recommendation: The Agricultural Cooperative Service should be maintained as a separate agency within the U.S. Department of Agriculture.

The Role of the ACS

Broadly stated, the basic role of the Agricultural Cooperative Service is to improve the economic and social well-being of farmers and ranchers by assisting them in the development of viable, efficient and effective agricultural cooperatives.

This is the same purpose defined in an earlier (1980) study on ACS activities. It is also consistent with the directives and authorities of the Marketing Act of 1926.

In carrying out this role, ACS and those relying on its work must be cognizant of changing attitudes or needs in two critical areas:

(1) Changes in attitudes on the part of USDA leadership toward ACS or toward cooperatives and their role in the agricultural economy.
(2) Changes within the cooperative community and cooperative organizations which affect their view of ACS and the demands placed on it.

It is essential that USDA leadership and the Office of Management and Budget have a clear understanding of ACS's mission. Proposed budget and personnel cuts compared with related USDA agencies, strongly suggest a lack of understanding of the agency's role within the USDA structure (see tables 1 and 2). This signals the need for stronger, more effective communication of cooperative needs to Departmental leadership. ACS leadership is responsible for working within the framework of Department policy-making to accomplish this purpose. In addition, the cooperative community needs to more effectively communicate these needs to all levels of leadership within USDA.

The stated role of ACS is broad and general. It is purposely so in order to allow the agency to effectively respond to the changing needs of cooperatives and their members. The rapid changes taking place in cooperatives including increased membership and business volume, broader markets, and increasingly sophisticated operations, alter demands made on the agency's resources. Further, the severe economic climate faced by many farmers and ranchers is reflected in the demands placed on their cooperatives. ACS leadership must be aware of these trends and changes and adapt the agency's work to address emerging needs.

By focusing resources on emerging issues, the attention of the responsible USDA officials can be drawn to questions early in the policy development process. Similarly, research and technical assistance devoted to early identification of cooperatives needs can be more productive in terms of assisting cooperatives and their members in avoiding problems or capitalizing on opportunities.

2. Recommendation: The mission of the Agricultural Cooperative Service is: "To improve the economic and social well-being of farmers and ranchers by assisting them in the development of viable, efficient and effective agricultural cooperative institutions." In addressing this mission, the agency must focus on emerging issues and trends that affect agricultural cooperatives and identify means of capitalizing upon the changes or ways in which their adverse impacts will be lessened.

Functions of the ACS

What functions or activities are required for ACS to carry out its role? The Cooperative Marketing Act of 1926 authorizes activities in six specific areas. In reviewing current ACS activities, and in light of available resources and agricultural cooperative needs the Review Committee feels that three basic areas of activity can be defined:

(1) Research, analysis and statistical information;
(2) Cooperative education, information and history; and
(3) Technical assistance.

ACS staff is a resource to be organized and used in a manner that will address these needs to the fullest possible extent. Focus of the work, particularly in the research and technical assistance areas, should be on issues that have the broadest possible application to farmer cooperatives. In many instances, it appears desirable ACS play the role of a catalyst to broaden its impact. More will be said on this.

In addressing the question of research, analysis and statistical information, focus must be on issues that have primary relevance to cooperatives. Further, the scope of the work must be considered. In making a choice between a number of potential research projects, the decision must be made on which has the greatest potential impact for all cooperatives. No attempt was made to develop an exhaustive list of areas requiring research attention. A number of problems demanding study, however, include cooperative organization and structure, cooperative finance, impact of public policy on cooperatives, cooperative communications, and other issues relating to the ability of cooperatives to respond to the needs of their members.

This is often referred to as the "Information Age". On the one hand, policy makers, entrepreneurs and others responsible for decision making rely on and require current and reliable information regarding market trends, impact of organizational change on business performance, and probable reaction to a given course of action. At the same time, there are many competing voices in the "information market". With respect to cooperatives, decision makers draw on a number of sources for their information. But there is a strong and continuing need for cooperative-specific information -- a need that can only be filled by the Agricultural Cooperative Service.

The educational aspect of this function must be viewed as applying broadly to farmers -- users and potential users of cooperatives -- government and the general public. These efforts must broaden the knowledge about cooperatives -- what they are, what they do, and how they do it.

The cooperative movement is dynamic. In this sense, it is important to understand the basis of its development, the underlying reasons for growth and change and the benefits or pitfalls of shifts that have occurred. Cooperative history is also useful in understanding the basic need for cooperatives to exist, and the harmful consequences in earlier times when there were no cooperatives to provide services or countervailing forces in farmers' markets. ACS is positioned to provide this historical perspective of cooperatives as part of its operation, as well as exercising leadership in pointing future directions for cooperative enterprise.

There has been a tendency for people outside the cooperative community to view ACS's technical assistance operation as being devoted to the development of new cooperatives. Consequently, the argument has been made that the need for this work has passed. This is not true. There are instances where development of new cooperatives can address farmer's needs. More to the point, the technical assistance effort is and must be much broader than cooperative organization and development.

For example, one recent success story of cooperative development involves a cotton cooperative in North Carolina. Farmers in the eastern part of the state wanted to grow cotton in rotation with peanuts, but were prevented by a lack of ginning facilities within reasonable distance. Following ACS' feasibility study and business plan development, a ginning cooperative was formed and began operating in the fall of 1980. The cooperative has successfully provided needed ginning services to its 115 members and the availability of its services has resulted in expansion of area cotton production from 600 acres in 1980 to 12,000 acres in 1984. The cooperative more than doubled its capacity in 1984, and plans to build 2 additional gins by 1989. It is estimated that area farmers have boosted their income by $1 million a year through this enterprise.

Within the framework of existing cooperatives, the need for advice on restructuring, capital development and other basic questions is ongoing. The need to assure availability of essential services to farmers, the introduction of new crops, and the opening of new marketing possibilities all raise questions with producers regarding the potential for cooperative action to meet a need that did not exist before or was met on some other basis.

3. Recommendation: The Review Committee has defined three basic areas of activity for the Agricultural Cooperative Service. They are: (1) Research, analysis and statistical information; (2) Cooperative education, information and history; and (3) Technical assistance.

The research focus should be on issues having primary relevance and the broadest possible application to agricultural cooperatives.

The education function should be aimed at meeting specific cooperative information needs and broadening knowledge of cooperative principles among farmers, government, and the general public. More emphasis should be placed on cooperative history as a means of understanding how cooperatives may be organized successfully and why cooperatives are important to agriculture and the public.

The technical assistance effort should address both new cooperative development in areas of specific need, and ongoing advice to existing cooperatives on restructuring, capital development, and other basic questions.

ACS's Role as a Stimulator

The Review Committee feels that every possible effort must be made to broaden ACS's reach and impact. Resources available at any given time must be organized in such a way that they can capitalize on opportunities to generate activities by others which are beneficial and necessary to cooperatives. In a sense, this is seeking to leverage the resources of the agency through outreach or stimulation of other efforts.

The broad role assigned ACS, "To improve the economic and social well-being of farmers and ranchers by assisting them in the development of viable, efficient and effective cooperative institutions" is complementary to the mission of other USDA agencies and the Land Grant University System. It is very closely attuned to the mission of cooperative trade associations and operating cooperatives.

There should, at all times, be the closest possible cooperation with other USDA agencies and other elements of the Executive branch. The fullest possible use should be made of information and data available from other agencies. Where possible, ACS should seek to have questions affecting cooperatives addressed as part of the work performed by such agencies.

This strengthening of ties with other agencies does not imply a reduction of the need for ACS's work. In fact, success achieved in this direction would broaden ACS's impact through increased awareness of cooperatives, their functions, and their needs. It must also be recognized that there are specific areas of research, data collection, information and education that pertain uniquely to cooperatives and that must be performed by the Agricultural Cooperative Service. Expanded coordination of effort and avoidance of duplication, however, are objectives that must be pursued.

The Land Grant University System which includes teaching, research and extension functions offers another source of close cooperation. It is uniquely equipped to address problems of a local or regional nature. Cooperative research agreements and joint effort in cooperative development and technical assistance could broaden ACS's impact in this area.

As an example of resources available, several states have undertaken initiatives to encourage and develop additional funding for cooperative research and study at the Land-Grant Universities. Wisconsin and Texas have had such programs for years.

The State of Missouri is working to endow the "Robert Partridge" Cooperative Chair at the Department of Economics, University of Missouri. The Chair is named in honor of the recently retired, long-time executive of the National Rural Electric Cooperative Association. Kansas is proposing something even broader: the Arthur Capper Cooperative Center. Named for the co-author of the Capper-Volstead Act, the center would be established at Kansas State University and would include many people of various specialties in cooperative research and education.

The State Cooperative Councils, cooperative trade associations and operating cooperatives offer additional opportunities that should be exploited to the fullest.

State efforts can be promoted and encouraged by ACS. Much of this is done at the present time. The agency can serve as a focal point for stimulating additional efforts. Broadening these opportunities will require efforts outside the scope of ACS itself. In the case of inter-agency cooperation, there must be a conscious effort within USDA, beginning with the Secretary, to bring this about. The cooperative community can, and should, be more active in this respect.

4. Recommendation: The resources of the Agricultural Cooperative Service should be organized and employed in a manner that will allow the greatest possible outreach and leveraging of available resources. ACS should serve as a stimulator of efforts of other government agencies, land grant universities, state cooperative councils, cooperative trade associations, and operating cooperatives themselves. Avoiding duplication of effort and achieving maximum results must be the criteria for the deployment of ACS's limited resources.

ACS' Keeping Abreast of Changing Needs

ACS must be responsive to the changing needs of cooperatives, and support from USDA leadership is essential so that ACS may meet these needs. Agricultural cooperatives need to be familiar with ACS programs both to maximize their benefit and to create grass-roots support for ACS. These objectives could be advanced by creation of an informal advisory committee.

We propose the regular convening of a representative group of agricultural cooperative leaders to assess the programs and needs of the Agricultural Cooperative Service. This should be done informally under the auspices of the organizations representing agricultural cooperatives. It can serve a dual purpose of assisting ACS in determining current needs and goals,, and communicating ACS's needs and potential to their membership.

5. Recommendation: As a means of providing an ongoing assessment of the needs of the agency and to provide guidance in terms of emerging issues, a representative group of agricultural cooperative leaders should meet regularly to review the programs and needs of the Agricultural Cooperative Service. This would be an informal process conducted by organizations representing agricultural cooperatives.

Organization of ACS

The resources presently available to ACS represent a minimum necessary to accomplish the task. The ideal situation would be one in which the additional personnel and funding could be made available to fully meet current and projected needs.

Work should be done to expand the budget and personnel resources available to the Agricultural Cooperative Service. But beyond that, there is a continuing need to organize available resources in a manner yielding the greatest results. For this purpose, the Committee recommends that management should develop, within the limits imposed by Office of Personnel Management, a divisional structure along functional lines. The three operational divisions would include:

(1) Research, analysis and statistical information;
(2) Cooperative education and history; and
(3) Technical assistance.

Such a structure would be capable of responding to existing needs and flexible enough to meet future demands of the agency. Further, as agency resources are increased, added capacity could be fit into the structure with relative ease.

This organizational structure does not envision a rigid compartmentalization of activity. In most instances today, agency personnel devote a portion of their effort to research as well as to technical assistance. This mix of activity has developed staff capabilities soundly based in market needs, cooperative and member requirements, as well as skills supported by attained research capacity. We feel that maintenance of the commodity oriented research expertise of ACS is important.

In organizing ACS to carry out its research function, consideration should be given to the use of a task force concept. With this approach, certain individuals would be designated as leaders in specific areas and would draw on existing agency capabilities in addressing any given research problem.

While this approach may reduce the depth available in any specific commodity or subject area, it would expand ability to respond to broad-based questions and increase overall agency capacity. The same concept would lend itself to technical assistance delivery by the agency.

Presently, ACS has a relatively small portion of its resources devoted to public policy research. There is a need to broaden this effort. Public policy has significant impacts on cooperatives and their operations. In many instances these impacts are not intended nor anticipated. ACS public policy research can be valuable by identifying these potential impacts of policy options, how cooperative operations may strengthen or reinforce a given policy, and how undesirable impacts can be minimized.

Vital to public policy research is the need within USDA and across government, to seek ACS's input on how government policy will impact on farmer cooperatives. This is an area where leadership must be exercised by the Secretary and his office. Consequently, consideration should be given to development of a "Cooperative Impact Statement" in connection with policy formulation. This would formally recognize burdens a policy decision may place on cooperatives, or the manner in which cooperatives themselves could strengthen a policy.

It must be reemphasized that the Review Committee felt strongly that the focus of ACS research must be on (1) issues peculiar to cooperatives, (2) cooperative role and structure in the face of declining farm numbers and the changing structure of agriculture, and (3) maintenance of effective member communication and control in organizations of increasing size and centralization, and related matters. Also the Committee felt that a more visible emphasis must be placed on the historical perspective and context of agricultural cooperatives in the education and information program.

Overall, the work of this division is seen as key to reaching the general public. The information currently available is good. However, more can be done in terms of making the cooperative community aware of this information so that it can be used more effectively. The cooperative community must also share in this responsibility.

The technical assistance division is envisioned as a small, specialized unit that would draw upon the capabilities of other units. Using the task force concept, a group of staff specialists could be assembled to provide the expertise required to address the specific project at hand. In most respects, this approach would not be greatly different from that presently used by the agency.

The technical assistance mission of ACS is a means of making available to groups of farmers, or to existing cooperatives, expert assistance in analyzing the feasibility of organizing a cooperative, restructuring or merging existing cooperatives, or in addressing any number of policy and managerial questions that may face a cooperative.

We agree with ACS's approach to new cooperative development. The focus should not simply be a numbers game of creating new cooperatives. New cooperativs must address a demonstrated need and display a reasonable probability of economic viability.

The field office concept should be carefully evaluated. Without question, the personnel involved in these operations are meeting a need. However, because of resource limitations currently available, the method of providing technical assistance should be constantly appraised. ACS should consider how to utilize the existing expertise of university extension marketing and cooperative specialists. The field office in Hawaii is an example of a field office that is cost-effective, due to the potential travel costs and time required for travel from the Washington, D.C. office.

ACS's role as a stimulator, working with various state extension services can help develop a greater understanding of cooperatives and their needs. It can also stimulate increased acceptance of the cooperative as a business entity.

Providing technical assistance to existing cooperatives must also involve some selectivity. As with research, those projects that offer the prospect of broad application beyond the current problem should be given priority.

6. Recommendation: Consistent with the Office of Personnel Management requirements, ACS should be organized with three operating divisions along functional lines: (1) Research, analysis and statistical information; (2) Cooperative education, history and (3) Technical assistance. This is not seen as a rigid compartmentalization of duties or tasks. In performing research and technical assistance, a task force approach is recommended.

Increased research emphasis is recommended in the area of public policy as it impacts cooperatives. The Department of Agriculture and other government agencies need to be made aware of the impact that public policy decisions may have on cooperatives. Development of a "cooperative impact statement" could address this need.

More needs to be done to make the cooperative community aware of information available through the agency.

The provision of technical assistance is an ongoing need. More can and should be done to involve the Extension Service in this work. The use of resources in field offices should be carefully evaluated.

Agency User Fees

There has been discussion of applying user fees to ACS technical assistance, and establishing a subscription cost for agency publications. During 1983, a user fee study was developed by ACS in conjunction with USDA directives and recommendations of the President's Private Sector Survey on Cost Control. The study is still under review and has not been implemented. Some of the larger cooperatives making use of technical assistance possess resources to meet the cost of such services. In many cases, other cooperatives would be forced to forego such assistance because of its high cost of unavailability. It is probable that the greatest technical assistance benefit is to those who do not have the resources.

We recommend that consideration be given to user fee plan for assistance rendered those with an ability to pay, where the assistance is specific and limited in its application. Assistance to smaller cooperatives and new groups of producers would, under this concept, continue to be provided through appropriated funds.

Regarding the cost of publications, one free subscription of ACS's monthly magazine, Farmer Cooperatives, should continue to be available to all cooperatives. This publication reports on the agency's activities and provides information useful to the cooperative community. Beyond the one free subscription, consideration should be given to charging for the publication, if that policy is consistent with other USDA agencies.

Experience of other USDA agencies in applying subscription charges for their publications should be a guide for ACS. Since most of the agency's publications are of the single issue variety, a policy could be established of providing a single information copy free, with a charge for additional copies of the publication.

Adoption of a user fee for services and publications of the agency is not viewed as a replacement for appropriated funds. User fee income would, be placed in a separate fund to the account of the agency and be available for funding additional research and technical projects or positions.

7. Recommendation: If a user fee plan is implemented, it should be constructed so that those with ability to pay for technical assistance, which is specific and limited in application, would bear the cost of the service. With respect to publications, one free subscription to the monthly magazine, Farmer Cooperatives, should be available to all cooperatives with additional subscriptions on a fee basis. For other ACS publications, one free information copy should be made available, with a charge for additional copies consistent with other USDA agencies.

Appropriations by Selected USDA Agencies

	Appropriations (dollars in thousands)		
	FY 1984	FY 1985	Difference
Marketing and Inspection Services			
Agricultural Cooperative Service	4,677	4,639	-38
Agricultural Marketing Service	32,030	30,454	-1,576
Animal and Plant Health Inspection Service	271,402	277,041	+5,539
Federal Grain Inspection Service	12,861	6,936	-5,925
Food Safety and Inspection Service	338,808	353,239	+14,431
Office of Transportation	2,549	2,515	-34
Packers and Stockyards Administration	9,013	9,035	+22
Total, Marketing and Inspection	671,340	683,859	+12,519
Economics			
Economic Research Service	44,329	45,614	+1,285
Statistical Reporting Service	54,430	56,289	1,859
World Agricultural Outlook Board	1,533	1,642	+9
Total, Economics	100,292	103,545	+3,153
Science and Education			
Agricultural Research Service	475,406	492,022	+16,616
Cooperative State Research Service	247,655	284,276	+36,621
Extension Service	334,340	343,727	+9,387
National Agricultural Library	10,382	11,400	+1,018
Total, Research	1,067,783	1,131,425	+63,642
Natural Resources and Environment			
Forest Service	1,388,916	1,310,073	-78,843
Soil Conservation Service	621,894	609,383	-12,511
Total, Resources and Environment	2,010,810	1,919,456	-91,354
Total, USDA	35,017,801	34,225,925	-791,876

AGRICULTURAL COOPERATIVE SERVICE

EMPLOYMENT HISTORY (FULL-TIME PERMANENT)

YEAR		DATE	CEILING	CHANGES
FARMER COOPERATIVE SERVICE				
FY-68		07-01-67	105	00.0%
FY-69		07-01-68	93	-11.4%
FY-70		07-01-69	95	2.2%
FY-71		07-01-70	99	4.2%
FY-72		07-01-71	84	-15.2%
FY-73		07-01-72	84	0.0%
FY-74		07-01-73	88	4.8%
FY-75		07-01-74	88	0.0%
FY-76		07-01-75	81	-8.0%
FY-76	(TRANSITION QUARTER)	07-01-76	81	0.0%
FY-77		10-01-76	81	0.0%
ESCS COOPERATIVE PROGRAM				
FY-78	*1	10-01-77	85	4.9%
FY-78	*2	01-01-78	84	-1.2%
FY-78	*3	09-30-78	77	-8.3%
FY-79	*4	10-01-78	72	-6.5%
FY-80	*5	10-01-79	77	6.9%
AGRICULTURAL COOPERATIVE SERVICE				
FY-81	*6	10-01-80	92	19.5%
FY-82		10-01-81	80	-13.0%
FY-83		10-01-82	70	-12.5%
FY-84		10-01-83	70	0.0%
FY-85		10-01-84	66	-5.7%

*1 - Reflects transfer of Co-op Admin. Unit to ESCS Admin. Div. and transfer of 2 Co-op transporation employees to the Office of Transporation and detail of 1 person to SEA.

*2 - Reflects transfer of Co-op Info. unit to central ESCS Info. Staff.

*3 - Reflects transfer of M. Godwin to ESCS Administrator's staff.

*4 - Increase in ceiling to coincide with budget increases in policy, and International Trade areas. Only limited number of ceilings received (4 of requested 10 for budget increase).

*5 - Increase of 5 ceilings in Cooperative Development Division.

*6 - Restored to Agency Status with an increase of 15 ceilings.

NATIONAL CATTLEMEN'S ASSOCIATION

STATEMENT OF JO ANN SMITH, PRESIDENT

Senator BURDICK. The next witness is Jo Ann Smith, president of the National Cattlemen's Association.

Ms. SMITH. Good morning. My name is Jo Ann Smith. I am president of the National Cattlemen's Association, an organization of cattle producers in the United States representing some 250,000 members.

Mr. Chairman, we have previously filed a longer written statement, and I will speak from the brief statement. I would like for the written statement to be entered into the record.

Senator BURDICK. The full statement will be received.

[Ms. Smith's prepared statement appears at the conclusion of her oral testimony.]

Ms. SMITH. With me this morning, as a technical advisor and vice president of NCA, is Tom Cook.

Senator BUMPERS. Mr. Chairman, let me say also that I misspoke, myself, again. I thought the Cattlemen's Association had already come and gone.

Ms. SMITH. You got here in time, thank you.

The National Cattlemen's Association firmly supports efforts by Congress and the administration to reduce Federal spending. The long-term success of agriculture and most other related industries are at stake.

The National Cattlemen's Association—the Nation's cattlemen—clearly are willing to take cuts in Government programs conducted in part for our benefit, and we believe that this can be done without harm to our industry or to the public, provided that the programs and services of the highest priority be kept intact and those of low priority be deleted or reduced.

Our comments today pertain to the budget for the U.S. Department of Agriculture. We wish to commend the Agricultural Research Service for reducing operating costs so that more resources can be directed to high priority research efforts. ARS has earned the respect and support of the National Cattlemen's Association by clearly demonstrating its commitment to become more effective and more responsive to the needs of the industry.

Therefore, we recommend that the ARS budget for fiscal year 1986 not be reduced from fiscal year 1985 levels. Through redirection of existing funds, the following areas of research should be given top priority: Range plant research should be enhanced, as should processing, storage, and food safety of animal products, particularly given the importance of these products in the export market.

The administration's fiscal year 1986 budget request for the Cooperative State Research Service completely eliminates the funding for animal health and disease research, which is unacceptable to the members of NCA.

Long-term research is badly needed, but it will not be done until funding is more reliable and more dependable. Funding must be restored for animal health research, $7.1 million in special research grants and $5.8 million under section 1433.

USDA also proposes to eliminate funding for rangeland research. Both the NCA and the Society for Range Management request that this high priority be funded at $2 million.

Our only priority item under the Extension Service budget is the Financial Management Assistance Program for farmers. We have no opinion on other earmarked programs but believe that the Financial Management Program must be strengthened and continued.

NCA generally supports the proposed budget cuts for the Soil and Water Conservation Programs as outlined in the USDA budget. However, two areas where extensive budget cuts would be detrimental to agriculture and to the general public are: One, technical, which is SCS, assistance personnel and programs; and two, snow surveys.

NCA supports budget cuts for the Agricultural Stabilization and Conservation Service as suggested in the USDA budget. We also support an end to the Resources Conservation Act [RCA] and any appropriations under that act.

NCA also supports reductions in appropriations under the Renewable Resources Planning Act and ask that the funds be directed at planning rather than assessment.

NCA is generally supportive of the USDA's budget outlined for Small Community and Rural Development Programs. Particularly, NCA supports the proposed cuts in funding and changes in the Farmers Home Administration to replace direct loans with loan guarantees.

NCA supports reduction in interest subsidies provided for the Rural Electrification Administration. NCA supports converting the Federal Crop Insurance Corporation over to a reinsurer of private insurance companies.

There are two areas in the Animal and Plant Health Inspection budget that NCA wishes to address. No. 1, the President's budget reduces spending for the Brucellosis Program by $14.9 million for fiscal year 1986 to $58.5 million. NCA has testified in the last 3 years supporting a program in the $60 to $65 million range. Our position remains unchanged. We believe the program can be cut from its present level and be viable and produce satisfactory results.

No. 2 is the screwworm program, and NCA opposes the proposed cut in the screwworm program. The President's budget proposes the maintenance of screwworm barrier zones on a quarantine line on the Isthmus of Tehuantepec. This would fund the program at $29 million.

NCA wants the barrier zone moved further south to the Isthmus of Panama. Studies indicate that the cost to move the barrier to the Isthmus of Panama would be an additional $20 million for the next 4 years.

However, once established, the maintenance cost would be $10 million per year compared to the current maintenance level of $29 million.

This is clearly a program that is a good investment with a long-term savings outweighing the short-term costs.

We cannot support reductions in funding for the Commodity Futures Trading Commission in light of the tremendous growth in volume of futures trading on the new futures contracts. Instead, we feel that funding should be increased to add market surveillance, economic analysis staff, as well as to maintain the present education and communications effort of the CFTC.

In conclusion, Mr. Chairman, we want to thank you for the opportunity to testify. We do sincerely want to see reductions in Federal spending as our first priority, and redirection and reallocation of the funds appropriated to the USDA a second priority.

Thank you.

Senator BURDICK. Thank you.

In recommending a reduction in the brucellosis eradication funding, the President's budget says that the States with high incidence rates should start paying more of the cost of the eradication program within their boundaries.

How do you feel about that?

Ms. SMITH. As I stated, we have supported a reduction in the Brucellosis Program now for 3 years. It is certainly a concern of ours but we feel that the program itself would not be affected, even the high incidence rate States, and that the States could assume more of the burden.

We have, of course, endorsed reducing the indemnity payment, for one thing, and it has not been reduced. So we feel that the program, with some redirection, would be far more effective, even with the budget cuts.

Senator BURDICK. Do you have any figures in mind?

Ms. SMITH. Of reduction?

Senator BURDICK. Yes.

Ms. SMITH. We have supported the $60 to $65 million figure now for—3 years, Tom? That would be the figure we would submit.

Senator BURDICK. What is your association doing in the area of agricultural research?

Ms. SMITH. The association has, as its priority—one of its high priorities, rather—research; research in various areas, not only production research, but research as it relates to the consuming public and our product. Through our foundation, the National Cattlemen's Foundation, and many cooperative programs, we are funding with not only government, but other entities, priority entities, research for various areas as it relates to the entire beef industry.

Senator BURDICK. What is your organization's position on antibiotics in animal feed?

Ms. SMITH. NCA has, here again, as a very high priority, the issue of, No. 1, food safety.

We recognize the fact that we have been privileged in this country with a very safe product, one that is inspected and graded more than any other food product that the consumer has at their fingertips.

We have just had a special committee, a task force rather, that has evaluated the antibiotic issue, and at that particular time had a policy that we support. With regard to the scientific research that has been done thus far in the area of the antibiotic issue, we ask that FDA speed up their research and make sure that the release of that study will be immediate rather than postponed any longer.

We have come back, through our board of directors, with a recommendation that we will see if they would voluntarily withdraw antibiotic feeding in the therapeutic area.

We are concerned about the public perception and the public safety. But we, on the record, certainly feel, that with no more antibiotics than we use, that there has been no scientific justification for any concern.

Senator BURDICK. This is also like the old days about the sheepmen and the cattlemen, but I want to give a new twist to it: Hog imports from Canada have increased dramatically, as you know. How will this affect the cattle industry?

Ms. SMITH. I am going to make a statement and then I am going to refer it to my technician here, if you don't mind, Mr. Chairman.

Basically, I think that the issue is a pork issue, not a beef issue, even though we, of course, are affected because of beef imports.

I would certainly respect the opinion of the pork industry, but technically, I am going to ask Tom Cook to answer that question. I will be the politician.

Mr. COOK. Mr. Chairman, the pork industry has been waging this effort for the last year and a half on Canadian imports. I think the primary concern is the way that the Government supports the pork industry in Canada and their belief that there are export subsidies, an unfair trade competitiveness with hog farmers in Canada.

That is an issue that we have been following. Our research or our information indicates that the beef cattle industry does not operate the same way in Canada.

So from the standpoint of a trade question, it is a trade policy question that the pork industry is faced with.

As far as your question about how it affects the beef industry, I guess an economist would have to take a look at the total meat supply and what impact it has on us.

Obviously, if we are increasing our total meat supply in this country, then that affects beef prices, but we have not explored that.

Senator BURDICK. Well, Madam President, how do you get along with those cowboys out in North Dakota?

Ms. SMITH. Wonderfully well, thank you.

Senator BURDICK. Senator Sasser.

Senator SASSER. Thank you very much, Mr. Chairman.

I was noticing in your testimony, Ms. Smith, that you recommend that the Agricultural Research Service budget not be reduced from the 1985 levels. Would you reiterate for the record the reasons for not wanting that particular matter reduced?

Ms. SMITH. We feel that—and when I say, "we," let me assure you that we have in our structure, literally done quite a bit of actual research back to the producer asking him to tell us what he needs and what his priorities are, so that the organization which serves him represents his true feeling of his needs and what he wants out of a national organization—research and development is one of the areas that the producer feels is the greatest need.

We have basically operated the beef industry, to a large extent, the same way it has been operating as long as we have had a beef industry in the United States.

We feel that much of the problem that we have with the competitive products is the fact that we have not, in research—and this goes right back down to production, and utilization of grasses and the lands—have not kept up with our competitor.

Senator SASSER. Yes.

Ms. SMITH. We feel strongly that agricultural research is an area that can be most beneficial, in the long term, because we do feel that we put into it more than we take out of it as far as production is concerned.

Senator SASSER. I note with regard to Soil and Water Conservation Programs, you indicate that the National Cattlemen's Association generally supports proposed budget cuts for the Soil Conservation Service, but you go on to say that you don't want these cuts to come in the area of technical assistance, that the funding for the technical assistance should be kept intact.

I agree with you on that, although it was my impression that a large portion of the Soil Conservation Service budget did go for technical assistance.

I think the administration originally proposed about a two-thirds cut in the budget of the Soil Conservation Service. I know they proposed a two-thirds cut in personnel in the agency.

Now, if that took place, I think what you would see is a dramatic decline in technical assistance to cattlemen and others interested in agriculture across the country.

Would you agree with that assessment?

Ms. SMITH. I think we are both saying the same thing. As a producer myself, what we are really saying is that the rancher wants the person who is there who can help me in Florida or someone in North Dakota, to remain.

As far as administration, we don't really need all of that. We need a guy that we can make direct contact with who will make something work.

Senator SASSER. Yes.

Ms. SMITH. We seem to have in that particular area, some excess baggage. We feel that there are people who are really not, what we term, the real technical technicians who understand the problem and understand the soil and the water problems.

Senator SASSER. But down where the rubber meets the road, or where the cow meets the grass, or however you want to define it, you do continue to want the technical assistance from soil conservation personnel——

Ms. SMITH. Yes, sir.

Senator SASSER [continuing]. To come by and visit and survey the individual rancher's situation? You want to have access to the soil scientists and that sort of thing?

You want access perhaps to the soil mapping that may come as a result of their studies? You are just talking about reducing the administrative overhead?

Ms. SMITH. Yes.

Senator SASSER. The problem is that you can't cut it two-thirds without getting into the real muscle and sinew of that agency. I am afraid that we will end up having the technicians cut, and dramatically, too.

Ms. Smith, thank you.

Mr. Chairman, I just want to say that I am sorry I missed the testimony of the National Milk Producers Federation this morning. They have a general counsel, a new general counsel, Mr. T.J. Oden from my State.

I particularly wanted to hear what they had to say, but I will read their statement with interest.

Thank you.

Senator BURDICK. Thank you.

Ms. SMITH. Thank you.

[Ms. Smith's prepared statement follows:]

STATEMENT OF JO ANN SMITH

INTRODUCTION

The National Cattlemen's Association firmly supports efforts by Congress and the Administration to reduce Federal spending. The long-term success of agriculture and most other industries is at stake. The Federal government competes with private sources for capital and inevitably raises the cost of doing business.

In the comments that follow, the nation's cattlemen clearly indicate that they are willing to take cuts in government programs conducted in part for their benefit. We believe that this can be done without harm to our industry or to the public provided that the programs and services of the highest priority be kept intact and those of low priority be deleted or reduced. In many cases, private industry is far more capable of providing a particular service than is the Federal government.

By and large, our comments pertain to the budget for the United States Department of Agriculture.

I. SCIENCE AND EDUCATION

Agricultural research and extension are among the best investments ever made by the American public . These investments must continue if American agriculture is to continue to provide a plentiful and economical food supply to the American public and to be a more competitive participant in the world market for agricultural products in the future. Individually, for various sections of the USDA Science and Education budget, the NCA has the following recommendations:

Agriculture Research Service (ARS)

We wish to commend ARS for making management and organizational changes to reduce operating overhead so that more resources can be directed to high priority research efforts. We encourage ARS to continue to redirect funds from lower to higher priority research needs. In this context, we support the concept of the ARS Program Plan with added emphasis on basic research.

ARS continues to operate in approximately 140 locations in this country and abroad. This number of locations is excessive and leads to inefficiency. Certain ARS locations with fairly small budgets and even smaller evidence of progress are held together by "gravity" and political support. We urge Congress to seek the advice of ARS administators and agricultural producers to identify those ARS locations which should be closed and/or merged with more substantial ARS facilities. The savings from these efforts could then be applied to research in areas of need.

ARS has earned the respect and support of the National Cattlemen's Association by clearly demonstrating its commitment to become more efficient and more responsive to the needs of the industry. Therefore, we recommend that the ARS budget for FY'86 not be reduced from FY'85 levels.

Through redirection of existing funds, the following areas of research should be given top priority:

> Range plant research has been neglected by ARS in the past and must receive additional attention. The rangeland in the U.S. is one of this country's most valuable assets. Research on the basic physiology and morphology of range plants is needed in order to enhance the productivity of the range.
>
> Processing, Storage and Food Safety of animal products is of great importance to the meat industry and should receive additional research funding. Since meat and other animal products are value-added

products, the importance of these in the export market cannot be overlooked.

Cooperative State Research Service (CSRS)

By supplying funds to State Experiment Stations, CSRS can impact the research priorities within each state by targeting its funds to specific priority areas. It is quite obvious that CSRS has placed a priority on plant research over the years while animal research has taken a back seat. This is most apparent in the competitive research grant section of the CSRS budget where $16.5 million is earmarked for plant science while only $4.5 million is earmarked for animal science. This is not consistent with the receipts received from plant products and animal products by American farmers and ranchers. If this is used as a yardstick, plant science and animal science appropriations should be equal.

The Administration's FY'86 budget request for CSRS completely eliminiates funding for animal health and disease research. This is unacceptable. In previous years Congress has always seen fit to restore funds for animal health research. In the meantime, however, researchers are puzzled and uncertain if their research efforts can be continued. This is not the way to provide incentive for researchers to tackle the complex animal health problems now facing the livestock industry. Long-term research is badly needed and it will not come about until a more reliable and dependable source of funding is found.

CSRS has asked the National Academy of Sciences to study the funding mechanisms now used for animal health research. When the NAS has made its recommendations as to how this program can be improved, we encourage Congress to act immediately to implement the suggested changes. In the meantime, funding must be restored for animal health research: $7.156 million in Special Research Grants and $5.8 million under Section 1433.

No funding has been proposed by USDA for Rangeland Research which was authorized under Subtitle M of Section XIV of the Agriculture and Food Act of 1981. This appears to be inconsistent with the intent of Congress. Both the NCA and the Society for Range Management (SRM) request that this high priority item be funded at $2.0 million. It is important to note that the federal funds cannot be used unless they are matched by non-federal funds on a 1:1 basis.

Extension Service (ES)

One single priority item emerges from the Extension Service budget. Namely, the program under Smith-Lever 3d known as Financial Management Assistance Program for Farmers. We have no opinion on the other earmarked programs, but believe that the "Financial Management" program must be strengthened and continued, even if this occurs at the expense of the other "3d" earmarked programs.

With the limited funds available to this program in FY'85, the Extension Service built a true "success story". With $1,000,000, the Extension Service sparked 18 intensive projects in 22 states with the objective of assisting farmers in revising their financial and farm business plans and to implement changes for improving their financial condition. Over 400,000 farm families received financial management guidance or information. An even more impressive statistic is that 36,000 of the families were provided intensive assistance in developing a revised individual farm business and financial plan. Undoubtedly, the $1,000,000 appropriations from USDA was at least quadrapuled by state funds.

The Extension Service has responded to a crisis, and has done an admirable job. Hopefully, the crisis will be over someday, but the need for financial planning and business management will never fade. The Extension Service should be encouraged to continue this effort and to transform it into a long range program of integrating financial and production management. Such an integrated effort could replace many if not all of the random and non-correlated efforts now funded through the Extension Service.

The Yearbook of Agriculture

The Yearbook of Agriculture, published annually by the USDA, is no longer needed. In the age of high-tech agriculture and an educated public, the Yearbook no longer serves the functional purpose of providing new information to agricultural producers or the general public.

We suggest that all funds now appropriated to the Yearbook be directed to the "Agriculture in the Classroom" project. "Agriculture in the Classroom" is an educational effort that distributes material for classroom use to explain to urban school children the source of their food. It is far more valuable to our society than the Yearbook of Agriculture, which is an obsolete educational instrument.

II. COMMODITY AND INTERNATIONAL PROGRAMS

Generally, NCA is supportive of the USDA budget for FY'86 in these program areas. However, the following concerns have been voiced by cattlemen:

Cargo Preference

If the domestic maritime industry is to be supported as a back-up to our naval defense, it should be done through the Defense Department, rather than through 'Cargo Preference' regulations. Cargo preference rules effectively force U.S. farmers and ranchers to subsidize the maritime shipping industry, at substantial cost to U.S. agriculture.

Export Credit Programs

NCA supports the level of funding called for in the FY'86 USDA budget for export credit programs. Many of the problems we face in foreign markets can only be addressed through trade negotiations to reduce barriers to trade and increase market access. However, we need to be as competitive as possible under current conditions in world trade, and the export credit guarantees help in this regard.

Office of International Cooperation and Development (OICD)

Cattlemen are concerned that important research now being done under the foreign currency research progam will be deleted as a result of the reductions in OICD funding. In particular, research projects in Pakistan and Yugoslavia related to disease transmission via bovine embryo transfer are of vital importance to American cattle breeders. The United States has developed a "genetic pool" in many livestock species which is the envy of the world. It has potential to develop into a major export market. Since the exportation of genetic material is effectively done by exporting frozen embryos, it is vital that we have a better understanding of the potential for disease transmission by embryos. Until this knowledge is gained, potential export markets will continue to be restricted due to health and disease regulations.

III. SOIL AND WATER CONSERVATION PROGRAMS

NCA generally supports the proposed budget cuts for the Soil Conservation Service as outlined in the USDA budget. However, we have identified two areas where extensive budget cuts would be detrimental to agriculture and the general public. They are:

- Technical assistance. Funding for technical assistance should be kept intact. Good conservation is a partnerhip between the land steward and his/her technical counterpart.

- Snow surveys. Complete elimination of funds for snow surveys will have an adverse effect. While it is true that private and public organizations will be able to assume some of the cost and can continue the work, there is at least a need for coordination across state lines and for some cost-sharing. The beneficiaries of these surveys include not only agricultural producers, but also state and local governments, and the Federal government.

NCA supports the budget cuts for the Agricultural Stabilization and Conservation Service as suggested in the USDA budget.

IV. SMALL COMMUNITY AND RURAL DEVELOPMENT

NCA is generally supportive of the USDA budget outline for programs under this area. Rarticularly:

- NCA supports the proposed changes in the Farmers Home Administration (FmHA) which replaces direct loans with loan guarantees.

- NCA supports reductions in interest subsidies provided to the Rural Electrification Administration.

- NCA supports converting the Federal Crop Insurance Corporation over to a re-insurer of private insurance companies.

V. FOOD AND CONSUMER SERVICES

NCA has no opinion on the appropriations to nutrition-related welfare programs

We are pleased that funding for the Human Nutrition Information Services will include an updated Food Consumption Survey. This study should be conducted, and validated, in such a way that it, will show what people actually eat --- not what they purchase. Simply asking people what they eat does not provide reliable data. Refuse scanning has been shown to be a valuable tool for this type of work and should be considered here.

USDA/HNIS should see that expected new data on the nutrient composition of beef as well as other foods are put into the hands of other agencies issuing diet advice, as well as food and health professionals. HNIS should see that, when the new Dietary Guidelines are issued, there also is information which can be used in interpreting the guidelines. This will include information showing the role of nutrient-dense meats in recommended diets.

USDA should be instructed to be the lead agency on nutrition and diet and to provide information to and to consult with the Food and Drug Administration and agencies in the Public Health Service/National Institutes of Health.

VI. MARKETING AND INSPECTION PROGRAMS

APHIS

There are two areas in the APHIS budget NCA wishes to address at this time.

BRUCELLOSIS

The President's budget reduced spending for the brucellosis program by 14.9 million dollars for FY 1986 to 58.5 million dollars. NCA has testified the past three years supporting a program in the 60-65 million dollar range. Our position remains unchanged.

We believe the program can be cut from its present level and still be viable and produce satisfactory results.

It is absolutely necessary that there be industry involvement and cooperation with federal and state regulatory personnel to be successful.

At our recent convention the NCA adopted policy supporting the following point needed to accomplish local control and eradication of brucellosis:

1. Total eradication of brucellosis in the U.S. and Puerto Rico is the objective of the program.

2. Continue efforts to cleanup remaining infection in "A" states so that a higher proportion of federal brucellosis funding and manpower can be shifted to "B" and "C" states.

3. To provide maximum protection an accelerated program of calfhood vaccination should be encouraged nationwide.

4. Adult vaccination should be expanded as a tool in the eradication of brucellosis nationwide but particularly those states of high incidence.

5. Necessary federal funding should be provided to assure adequate program continuation to achieve brucellosis eradication.

6. Primary and secondary surveillance program are a vital part of a total eradication program and should be stepped-up where necessary.

7. Funding for vaccination and indemnity must be tied to a herd plan.

The NCA also believes that in order for APHIS to carry out an effective program at the reduced level it needs certain flexibility in allocating resources to cooperative agreement and indemnity rates.

SCREWWORM

The NCA opposes the proposed cut in the screwworm program. The President's budget proposes the maintenance of the screwworm barrier zone and quarantine line at the Isthmus of Tehauntepec. This would fund the program at 29 million dollars.

The NCA wants the barrier zone moved farther south to the Isthmus of Panama. This would provide a more natural barrier zone and be much less expensive to maintain once established. While providing greater protection to the U.S. livestock industry, it will also reap great benefits for the livestock industries in all of the Central American countries.

Studies indicate the cost to move the barrier to the Isthmus of Panama to be an additional 20 million dollars per year for the next four. However once established, the maintenance cost will be 10 million dollars per year compared to the current maintenance level of 29 million dollars.

This is clearly a program that is a good investment with long-term savings outweighing the short term costs.

RELATED AGENCIES

Commodity Futures Trading Commission (CFTC)

We must express concern over reductions in funding for the Commodity Futures Trading Commission in light of the tremendous growth in volume of futures trading and in new futures contracts. The futures markets can be an effective private industry mechanism for us to protect ourselves from risk, but only if the markets are well-regulated, and only if the public is informed of the regulatory role of the CFTC.

The Administration budget for the CFTC calls for a reduction in funding of approximately $300,000. We feel that funding should be increased to add market surveillance and economic anaylsis staff, as well as to maintain the present education and communication efforts of the CFTC.

To reduce the funding for a regulatory agency at a time when the market under regulation is growing and changing as rapidly as it is, seems to be bad public policy. Rather than either stifle the innovative changes taking place or relax standards of regulation, a balance must be struck between them. Funding shoulsd be increased to cover for inflation (allowing retargeting of funds internally) and change. Innovation in the markets may be slowed somewhat --- but not stopped.

MILLER RESEARCH, INC., RUPERT, ID

STATEMENT OF TERRY D. MILLER, PH.D., PRESIDENT

Senator BURDICK. Our next witness is Terry Miller, president of Miller Research.

Dr. MILLER. Mr. Chairman, I am here representing farmers in Idaho who are concerned about grasshopper infestations on Federal grounds.

I guess, by way of introduction, the problem is not just in Idaho. I represent the Idaho farmers directly because I am a farmer.

I have a stack of letters here addressed to our Congressman trying to explain the gravity of the situation. I suppose there is no way, verbally, that we can do that. A person almost has to be there to see what happens when hordes of grasshoppers move in on agricultural grounds. Our problem has been getting any kind of action.

By way of clarity, let me tell you what we documented last year. Epidemic infestation levels are set at something like seven to nine grasshoppers per square yard. Actual counts on my farm, adjacent to BLM grounds, range from the low of 27 grasshoppers per square yard to 324.

Now, if you can relate that to cows, as has been mentioned today, six to seven grasshoppers per square yard equals one-tenth of a cow as far as how much forage it eats. It eats twice its body weight every day.

If we could carry that a step further, using that data, there is a possibility in the epidemic, which looks like it will break out, that it will be the worst in 30 years, and would equal somewhere around 360 cows per acre on the farms adjacent to the desert.

We have at least one, possibly two, species of grasshoppers that are multiplying on the Federal grounds out there that are the swarming types. They have the ability to swarm, which means that the population densities get very high, the hoppers start exciting each other by short flights, and pretty soon they take off up into the winds.

When they settle down, the levels per square yard may go from 100 or 200 to 200 or 300 per square yard. In that amount of time, they devastate the crop and then they leave again.

We find that in talking with APHIS, in talking with university personnel, and talking with all competent entomologists, everyone's assessment is that the farmers will not be able to control the infestation if it is allowed to reach agricultural grounds.

We are surrounded by BLM ground, grazing ground. That is where the hoppers multiply, that is where the eggs are, and that is where they come from as they mature.

One other thing, by way of clarification, that we understand, is that grasshoppers are susceptible to insecticidal sprays during their nymphal stages, the stages when they do not have wings. Once they achieve adulthood and have their wings, they move on agricultural grounds and that is when control goes down at least by 50 percent.

So what we are saying, is that if they are allowed to reach agricultural lands, we cannot control them. They will destroy the crops.

Our contention is, then, that this should be handled on Federal ground. They are breeding there. They have laid their eggs there. They will hatch there, and they will move from Federal grounds onto private grounds.

The problem we have is that it seems totally immoral that the Federal Government allow this to happen to us, and yet we know that they will. Last year, funds were expended, and for what reason I don't know, but I guess it was just to placate the farmers. By the time they sprayed, the hoppers were adults. They used very small planes, and they were ineffective.

We see that as our problems infringe upon Government grounds, certain actions are taken. If we have a fire that gets out of control and moves onto Government grounds, the BLM comes in and puts out the fire and sends us, the farmer, the bill. We can understand that.

If we have noxious weeds that move from our ground to BLM ground, we are given a notice to either take care of those weeds or they will take care of them for us, and they will send us the bill.

Yet, when pests move from Federal ground, we contact BLM, BLM says APHIS is responsible for control and to contact APHIS. APHIS then says they have no money. Therefore, that is where it stops.

The APHIS program has worked in the past where the Government took care of 100 percent of their ground; the State paid half and the Federal Government paid half on State grounds; and Federal, State, and private each paid one-third on rangelands. APHIS has been able to control grasshopper infestations in the past when they have been properly funded.

The problem we have now is that spraying in Idaho should probably be starting in the last week in June. The type of planes that are necessary—we have six planes with category-1, category-2 type aircraft, which are the large aircraft.

That means—and we have a 3-week period in which to do it—we need five to six planes to take care of Idaho. Those planes have not been used in the past. They are on the ground. They need to be prepared and there is no way they will get prepared unless funding is there.

I guess what we are saying is that if the Government doesn't—if it were us, we would borrow or we would sell something and take care of our responsibility. If the Government can't take care of its own grounds, perhaps some of those should be sold so they can have the funds so they can.

It just is unrealistic, morally, to us to try to understand why it doesn't happen.

I suppose, in closing, the thing that strikes me most is what Thomas Jefferson said. He said, "I know of but one code of morality for men, whether acting singly or collectively." What we find is when they act collectively, they pass the buck.

Thank you.

Senator BURDICK. Thank you.

You were in the hearing room when Senator Symms testified. You recall that we were discussing the calendar, whether or not we can get a supplemental appropriations through in time to be helpful to the area as early as June or July. That is one of the problems we are facing here. We hope we can beat the clock.

Dr. MILLER. I hope you can, too, because if we carry that one step further, we have to ask ourselves what do farmers do if that control does not happen.

They will do things that are not legal to try to hold it back, and farmers think if they burn the desert, they will kill the grasshoppers. Probably the grasshoppers will be adults before the desert will burn.

I suppose if you were a farmer, and I am a farmer, you sit there in frustration with what we are going through now, and you see them destroying your crops. I am not so sure they won't burn it anyway.

Then of course, BLM will send the farmer the bill to cover putting out the fire. It is ludicrous.

Senator BURDICK. The Senator from Idaho has just arrived. I want him to know that I have been taking his name in vain.

We're discussing this grasshopper question, hoping we would get an early supplemental to get some assistance out there in the West. What do you say about that?

Senator MCCLURE. Well, thank you very much, Mr. Chairman. I am sorry I was detained in another committee meeting until just this moment.

We would have had a supplemental on the floor before now, except that the only appropriations actions that have been taken so far don't lend themselves to that kind of an amendment, and we have had specific requests from both the administration and the chairman of the Appropriations Committee that we not attempt to get that supplemental funding early.

We do have assurances from APHIS that they can spend the money, that they will spend the money, that they are prepared to spend the money, that they know we intend to provide it for them.

My concern, however, as I am sure yours is, Senator Burdick, is that as week follows week, the season advances, and the grasshoppers don't wait.

One of these days we are going to find out if it is threat or reality, and by the time we learn that, it is too late to effectively control the epidemic.

I am convinced, and all of the people who I have talked to from Idaho, and all of the people in APHIS, are convinced that the threat is real, that control measures should be taken.

We ought to provide the money. And we ought to do so at the earliest possible time, and I pledge to do that.

Incidentally, I appreciate your support in that effort. We have a coalition of Senators from the Western States on the grasshopper question. We have been joined by those who are concerned about gypsy moths and some who are concerned about the outbreak of the boll weevil.

It is my belief that that group of people with those three different sets of concerns will be able to provide the funding. The only concern I have is the question of timing.

Dr. MILLER. One further statement then: As I was saying, there is nothing in the weather pattern that suggests that the hatch will not be optimum.

The weather in Idaho and most of the West now has been warm. If it stays warm and dry, there is no reason for the nymphs to die during their first week after hatching. And so we see no reason why the epidemic will not occur.

I guess I just need to know, what do I tell the farmers when I go back?

Senator MCCLURE. The very first opportunity that we have, we will offer the amendment. I believe it will pass. I think it will be accepted in the House.

Dr. MILLER. We hope it will be in time.

Senator MCCLURE. We have to press for that, but we can't create that timing. An appropriations matter of this kind must originate in the House of Representatives. We have to wait until they pass something which we can amend. They have not yet done that.

Dr. MILLER. The House says that they will not have time this year to get it through.

Senator MCCLURE. I know they say that.

Dr. MILLER. They say that the Senate should attach, the Department of Agriculture says, "Golly, we would like to give you CCC funds but we probably can't get those." So, as we go around Washington, we get passed back and forth and we, I guess, being naive, believe what people tell us.

Senator MCCLURE. Well, I think they mean exactly what they tell you. I think they don't intend to provide the money. We do, and the first opportunity, we shall do so.

Dr. MILLER. Realistically, Senator, will that happen by the middle of June?

Senator MCCLURE. I believe it will happen before the middle of June.

As you would know, if it happens as late as the middle of June, it would already be too late to do it optimally in the southern area which would be affected.

You would also know that where there are intermingled Federal, State, and private lands, there are other interests which have to be coordinated, such as the beekeepers. Also, the cooperative efforts that have to be—the cooperation that has to be not just engineered but arranged and worked out ahead of time, must take some time.

Dr. MILLER. At least in Idaho we are prepared to take care of that.

Senator MCCLURE. We are in some areas. Unfortunately, there are—I don't see that having been done in Indian Valley. That is one of the areas that was afflicted last time. That is one that is typically afflicted, but I don't yet see the preplanning done in that area. But I think across the Snake River Plain, generally speaking, the preliminary steps—preliminary arrangements—have been made and put in place.

Senator BURDICK. Thank you, gentlemen.

Dr. MILLER. Thank you.

Senator MCCLURE. Thank you, Mr. Chairman.

[Dr. Miller's prepared statement follows:]

STATEMENT OF DR. TERRY MILLER

The following is a brief overview of grasshopper biology and the severity of the problem in 1984 in South-central Idaho.

GRASSHOPPER DEVELOPMENT

Developmental stages in grasshoppers include the egg, immature (nymph) and adult. Most species pass the winter as eggs. Eggs are deposited by the females during the late summer and fall. Eggs are produced in groups and in structures called egg pods. Pods commonly contain 4 to 40 eggs. Females produce 4 to 25 egg pods, and total egg production is commonly 100 to 200 eggs, but 500 is not uncommon. The nymphal stage includes 5-6 stages (instars) before becoming an adult.

BEHAVIOR

Grasshopper movement is influenced by: (1) suitable food supply, (2) weather, (3) mating, and (4) population pressures. Factors 1 through 3 are sporadic flights of somewhat short duration. Mass flights due to dense populations (swarming) cause movements of up to 66 miles/day and 200-300 miles/season. Swarms can increase grasshopper numbers from 1-5 hoppers/sq. yard to several hundred/sq. yd. Swarming increases dramatically the consumption of the crops descended upon and results in rapid damage to agricultural crops.

POPULATION DYNAMICS

Grasshopper populations are characterized by violent oscillations between endemic (low) and epidemic (high) densities. Populations commonly require five years to move from endemic (less than 1/sq. yd.) to epidemic (24-32/sq. yd.) densities. A common but erroneous assumption is that severe winter weather will affect grasshopper survival. However, the eggs seem relatively impervious to weather conditions. One of the common hoppers infesting our area has the capability to increase 82-fold between generations. Biological control by predators, parasites and disease cannot be counted on to keep grasshoppers in check. This is witnessed by the fact that epidemics have and continue to occur throughout the world.

MANAGEMENT & SUPPRESSION

Grasshoppers eat approximately one-half of their body weight in green foliage per day. Grasshopper populations of 6-7/sq. yd. will consume as much forage as one-tenth of a cow/acre. The U. S. department of Agriculture suggests treatment when numbers exceed 9/sq. yd. Grasshopper control in order to be effective must take place before the adult stage is achieved. Large, mature adults are less susceptible to insecticides. Table 4. shows a dramatic drop in the effectivness of control when the hoppers become adults and, of coarse, they are adults when they move from the desert vegetation to agricultural crops. Chemical suppression programs are expensive, nevertheless, they are critically essential because of the long term reduction in grasshopper numbers. Hence, control costs can be amortized over several years.

Table 4. Costs* and returns associated with treatment of rangeland for control of grasshoppers (modified from Onsager, 1978).

Treatment	Instar Treated	Rate (kg AI/ha)	Forage saved/ha: kg (dry wt)	Forage saved/ha: Value ($)	Investment ($/ha)	Net Return ($/ha)
carbaryl	3rd	0.56	252	12.30	6.79	5.51
		1.12	297	14.50	9.63	4.87
	4th, 5th	0.28	212	10.36	5.37	4.99
		0.56	227	11.11	6.79	4.32
		1.12	242	11.81	9.63	2.18
	adult	0.56	130	6.36	6.79	-0.43
		1.12	132	6.44	9.63	-3.19
malathion	adult	0.56	125	6.14	5.53	0.61
untreated			0	0	0	-16.66

*Costs of treatment per hectare were $3.95 for application plus $1.42, $2.84 and $5.68, respectively, for the 0.28, 0.56 and 1.12 kg dosages of carbaryl and $1.58 for malathion. Forage was valued at $44 per metric ton. Grasshopper density was 10 to 15 per m².

Grasshopper population outbreaks can involve such large geographic areas that effective suppression is beyond the capability of the single landowner.

LOCAL DATA (Idaho)

During the 1984 crop year the following infestations were documented on the west farm of Miller Farm Research Inc. This farm is adjacent to Bureau of Land Management (BLM) desert grazing land.

a. Populations on wheat plants ranged from a low of 27 hoppers/sq. yd. to a high of 324 hoppers/sq. yd.

b. The above counts translate into 130,000-over 1,500,000 grasshoppers/acre.

c. Grasshoppers are considered at epidemic levels at 8-9/sq. yd.

d. Research plots near the desert measured 12 X 40 feet. On the final data collection date I was unable to find 10 wheat flag leaves in many of the plots.

e. Samples of wheat were collected for protein analysis in the laboratory. These samples were collected from an interior field not adjacent to the desert. Measurements of the weight of grasshoppers/bu. was 1.3% of the weight of the wheat. If a bushel of wheat equals 60 lbs. then 0.75 lbs. was dried grasshopper bodies. It should be kept in mind that the majority of the hoppers fly from the combine so only a small proportion are harvested.

WHO IS RESPONSIBLE FOR CONTROL?

The above figures are used only to help everyone understand the gravity of the situation in our state. The grasshoppers breed and migrate from federally-owned land. Officials of the BLM when asked what to do about the problem say only that the Animal and Plant Health Inspection Service (APHIS) handle grasshopper problems on federally-owned land. It is virtually assured that APHIS will not have funds to control grasshoppers because of the other demands placed on their very limited money supply. Funds are allocated on a first come first served basis. In the past, funds have been rapidly exhausted by Med fly and Citrus Canker outbreaks.

Our contention is that the problem goes beyond grasshoppers to include other pests (rabbits, noxious weeds, etc.) that originate on federal lands and devastate private lands. If the Bureau of Land Management is responsible for the management of desert lands, then it should see that that trust is carried out irregardless of to whom they have subcontracted the control. Carrying it one step further, the Department of Agriculture is where the "buck must stop". The Federal Government has a responsibility to its citizens to be a "good neighbor".

MAGNITUDE OF THE PROBLEM

I have enclosed estimates of the acres affected in the seventeen western states because this is not a local problem but one of enormous magnitude. APHIS in the past, if properly funded, has done an admirable job in controlling grasshoppers on federal lands. We believe that the program used in 1979 was reasonable, effective and fair. In brief the control was paid for as follows:

1. Federal lands - 100% federal funds
2. State lands - 1/2 federal and 1/2 state funds
3. Private lands - 1/3 federal, 1/3 State, and 1/3 private funds

Since the grasshopper infestations are periodic and do not occur each year, perhaps funding similar to fire control for federal lands should be considered. The fires are controlled and deficiency warrants are issued to pay for that control. The warrants are repaid by programs within the various agencies involved. We do not propose to know the best method to handle this type of pest management but we do know that the problem comes from federal, and to a lesser extent, state lands. Therefore, that is where the solution should also come from.

It has been predicted, based on scientific data, that 1985 will be the worst epidemic in 30 years. On my own property, using the data given in this document, the levels of grasshopper infestation could reach levels equivalent to 360 cows/acre. Data also presented shows that we will not be able to control the epidemic if the hoppers are allowed to reach the adult stage and migrate to the agricultural lands. Both the local administrator for APHIS, Roger Pollard, and the University of Idaho Entomologist say that the private land owners will not be able to control the expected grasshoppers. To this point in time there is no reason to beleive that the edidemic will not occur as predicted. In short, the hoppers have to be stopped in the desert before they reach the crop lands. It is unconscionable for the state and federal governments to stand by passing a political football back and forth while the federal grasshoppers devastate our lands. If such a problem were to start on private lands and threaten federal properties we would be forced to pay for the control measures. This is evidenced by the actions taken when fire or noxious weeds are allowed to spread to public lands.

HOW MUCH TIME DO WE HAVE?

Time has about run out. In order to adequately control the grasshoppers in the instar stage on the federal-lands where the hatch will take place, monies have to be appropriated now! It will take time to find and contract the large aircraft necessary to accomplish the spraying operation. Many of these planes have not been used recently and will need to be properly prepared. Is it possible to use the agent orange planes? The eggs will be hatching about the first of June. Since there is only one APHIS person doing all the ground work, immediately is the time for action.

Many letters have been written, many meetings held, and promises made, but we are no closer to a solution than when we started last fall. Everyone is sympathetic but no one has solved the problem.

It behooves each of us to examine the plight of the farmers before asking us to bear this overwhelming additional burden. We have exhausted our efforts and that is why we have taken time from our planting to present our problem. We ask only that you provide a long term solution to the problem of proper, responsible management of federal-lands.

*ESTIMATED ACREAGE REQUIRING CONTROL
BY STATE AND BY OWNERSHIP

State	Acres Private/State	Acres Federal
Arizona	100,000	1,100,000
California	-	-
Colorado	500,000	11,000
Idaho	200,000	900,000
Kansas	-	-
Montana	500,000	500,000
Nebraska	450,000	50,000
New Mexico	900,000	100,000
Nevada	10,000	25,000
North Dakota	300,000	350,000
Oklahoma	100,000	-
Oregon	500,000	200,000
South Dakota	400,000	500,000
Texas	500,000	-
Utah	103,000	365,000
Washington	35,000	35,000
Wyoming	300,000	500,000
Totals	4,903,000	4,637,000

Total Acreage: 9,540,000

*Fall survey indicates 54 million acres of economic levels of infestation. Acreage requiring control is based on knowledge of conditions and history of control measures in these areas.

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STATEMENT OF WAYNE NELSON, FARMER, WINNER, SD

Senator BURDICK. Our next witness is Mr. Wayne Nelson, a farmer from Winner, SD.

Mr. NELSON. Mr. Chairman, members of the committee, I am a wheat farmer from Winner, SD, and I would like to share a few comments with you about Federal crop insurance today.

The Federal Crop Insurance Act of 1980 provided for the delivery of the Federal Crop Insurance Program through the private sector.

Since that time there have evolved two main delivery systems: The agency sales and service, known as master marketing; and the reinsured companies. Both systems have been successful; however, a number of operating inequities continue to plague their successful operation and are detrimental to the success of the legislative purpose.

During the course of the development of the reinsured companies' and the direct writing master marketer companies' competing delivery systems, the Federal Crop Insurance Corporation consistently has favored the reinsured companies. This is reflected in management decisions which provide unequal contractual arrangements and provide unequal reimbursement for identical services. It also requires additional services for master marketing operators and reduces FCIC services to master marketer companies, and increases the services to the reinsured companies.

Also, it provides for the establishment of new insurance programs exclusively for reinsured companies and permits nonidentical program features as services to farmers, such as premium discounts for early payment available to reinsured companies and reduced national advertising and promotion available to attract new customers into the Federal Crop Insurance Program.

By permitting reinsured companies to be selective in the risks that they wish to insure, many farmers have been denied coverage under the crop insurance program, despite the fact that the Federal Government underwrites 95 percent of the risk for these companies.

In the States of Oklahoma and Texas, one reinsurance company has already notified us that they are pulling out of all crop insurance in those States. We fear this could happen in other States as well.

Federal crop insurance is a very good management tool for guarding against unforeseen disaster. It can only be effective if it is offered for crops in all areas and not just areas of low risk. This threat would be alleviated through keeping the master marketing system.

Many farmers report reinsured companies regularly deny coverage on one or more crops, while protection is offered only on the lowest risk crops and land.

Reinsured companies have made very little commitment to the crop insurance program in terms of promotion, advertising, training, and servicing of their agents.

The Federal Crop Insurance Corporation has failed to adequately build safeguards and police the loss adjustment practices of the reinsured companies. Adjusters for reinsured companies report being required to adjust losses without ever seeing the crop or field.

The system of direct Federal crop, as it works now, with Federal crop insurance employees doing the loss adjusting, is superior to having private companies train their own personnel for adjusting.

It has been my experience, on my own farm, that the years of adjusting experience by Federal crop insurance people has proven to be very valuable in tough adjusting circumstances.

I have always thought that this vast experience with adjusters has helped to make an equitable adjustment agreeable to myself—the farmer—and to the Federal Crop Insurance Corporation.

Some reinsured companies may follow a practice of paying heavy losses in one area, so as to make a big marketing push the following year.

By permitting reinsured companies to use State licensing as a cover for training and qualifying of agents for sale and service of crop insurance, instead of the FCIC agent certification training program, these reinsured agents generally are not equipped to sell and service the FCIC program in a manner that is advantageous to the farmers in terms of opportunities to make use of the protection and economic stability provided.

This has resulted in some customer dissatisfaction in terms of using insurance to the best advantage and making use of it in good years as well as bad years. It is most important that the agents doing the selling and servicing understand the program fully.

It is my fear that if only reinsured companies could sell crop insurance, farmers would suffer from the misinformation and lack of understanding on the part of agents who are trying to sell a product and do not make the effort to understand what they are selling and how it affects farmers.

This has already happened with some agents from existing reinsured companies who do not know the product well enough to explain the options to farmers. Also some unfair tactics have been used to "rollover" master marketer business to reinsured companies.

Some reinsured companies have failed to properly adjust losses in time to permit seeding of fall wheat crops and the insurance premiums have gone up dramatically in the last year.

The bottom line for farmers like myself is to have adequate crop insurance offered in all areas, for all crops, at the best rate possible.

We have carried Federal crop insurance on our farm for the last 30 years. I feel, along with many other farmers, including the Crop Insurance Committee of the National Association of Wheat Growers, that it is essential that the Federal crop insurance not be privatized.

Farmers are best served by agents and adjusters who work with the program every day. The present system of master marketing is much superior to having crop insurance offered only by reinsured companies.

The Federal Crop Insurance Corporation administrators have hinted strongly that they would prefer the reinsurance method of delivery of crop insurance, despite the evidence that the master marketer system operates more effectively and efficiently.

The result of proposed reduction in the 30-percent premium subsidy, now permitted in the FCIC Act, over a 5-year period would probably spell a demise of the master marketer system.

Contrary to the thinking of FCIC, the master marketer system also operates in the private sector. This phaseout would permit FCIC to no longer be a direct writer of insurance and would likely result in the increase in the premium rate charged farmers, far in excess of the current 30 percent portion paid by FCIC, and would price the insurance package beyond the reach of the producer.

This would reduce the possibilities of insurance to replace emergency aid programs to farmers, due to reduced participation. This would be contrary to the intent of Congress in passing the FCIC Act. It would eliminate the FCIC agency, which has served to maintain a level of stability and good sense in the insurance program at the agent operating level, and help achieve the private insurance company objective of eliminating all-risk type of protection in favor of just the hail and fire limited approach, which is more profitable.

It would increase the operating expense ratio of master marketers beyond a level necessary for competition. Also it would place the farmer in more jeopardy than necessary, especially in these difficult times, and remove a stabilizing factor from the collateral and lending arena that many local lenders and farmers are depending on in increasing amounts.

I appreciate the opportunity to appear before you today. I would be happy to respond to any questions at the appropriate time.

Senator BURDICK. Thank you very much.

You indicated in your testimony that the reinsured companies would deny crop insurance coverage to some farmers.

However, the Department of Agriculture says that it will continue to make rate and coverage determinations, and the management of the FCIC says that universal availability is something that the FCIC will insist that private agencies provide if they are to be the sole delivery mechanism.

Would a policy of universal availability alleviate your concerns in this regard?

Mr. NELSON. If it was really practiced, I think it would alleviate the concerns. But just as has happened in Oklahoma and Texas, with this one company pulling out, I figure that there is no legal way to keep a company operating, if it is all in the private sector, and it would be a terrible thing if we only ended up with crop insurance in the Corn Belt and not in any of the higher risk areas where many of the wheat farmers are located.

Senator BURDICK. Are you saying that the insurance companies would pull out of high risk areas?

Mr. NELSON. Yes; that is why they pulled out of Oklahoma and Texas, and I fear that would happen, possibly, in North Dakota or South Dakota as well with some others. So they just pick and choose where they wanted to have their insurance sold. Certainly, there could be guidelines set by the Government in trying to operate everywhere, but it would be very, very hard for them to enforce it.

Senator BURDICK. The FCIC also promises to strengthen its oversight and review fund. Would this heightened policy be able to take care of the concerns you have about the loss adjustment practices of the private companies?

Mr. NELSON. The way it is right now with the private companies training their own people, I, through personal experience, have had a great amount of difficulty with some adjusters from private companies versus the people trained by the FCIC. I guess that could change over the years, but it would take some period of time to get those agents trained and have a better understanding of how the system works. I fear that in the time period that it takes to get them all trained, the program would suffer so much that it wouldn't be worthwhile.

Senator BURDICK. You raised a point here that I hadn't considered before, and that is: Are you contending that the insurance companies, having the right to sell their insurance, that if they don't find it profitable because of a high-loss ratio, they just leave the area? Do you think that is possible?

Mr. NELSON. Yes; that is what has happened in a couple of States already. There are physical problems, like in the State of South Dakota and western North Dakota, where it is a long way between towns and a long way between farms. Reinsured companies concentrate now in the eastern part of the State where farmers are thickly populated, and they hardly ever go out into the western part because of the travel time and the number of agents.

There are all kinds of things that I think would make some of the sparsely populated areas suffer.

Senator MATTINGLY. Mr. Nelson. I think that your comments here today are very well received. I hope that we can somehow come up with a program which will help protect the farmer and the credit lenders against the very uncertain possibility of losses which are somewhat unique to the industry of farm production. When one has to take into consideration the fickle habits of Mother Nature with droughts, floods, unseasonable freezes, and then add the perils of insect infestations and the threat of animal and plant disease, it is really amazing that anyone would really want to be in this business.

There is no question that the old disaster loan programs did not really solve the problem. When you wreck your automobile the insurance company doesn't make you a loan, they pay your indemnity claim and that's that. I hope we can make a gradual transition over to a realistic crop insurance program which encourages greater participation—which itself will help reduce premium rates—while providing in the interim the least amount of cost to the Federal Treasury.

Senator BURDICK. Thank you very much for your testimony.

Mr. NELSON. Thank you.

NATIONAL ASSOCIATION OF PHARMACEUTICAL MANUFACTURERS

STATEMENT OF MICHAEL P. PESKOE, REPRESENTATIVE

Senator BURDICK. Our next witness is Mr. Michael Peskoe, representative of the National Association of Pharmaceutical Manufacturers.

Good morning.

Mr. PESKOE. Good morning, Mr. Chairman, and members of the subcommittee. My name is Michael Peskoe, and I am representing the National Association of Pharmaceutical Manufacturers.

With me is Mr. George Schwartz, who is executive director of the association. The National Association of Pharmaceutical Manufacturers represents a major cross-section of generic pharmaceutical manufacturers and distributors.

Virtually all of NAPM's members are involved to some degree in the drug approval process. As generic manufacturers, NAPM members most frequently file abbreviated new drug applications, which is the FDA mechanism where generic drugs receive FDA approval.

NAPM is extremely concerned with the possible imposition of user fees on this aspect of FDA's drug approval process.

NAPM is opposed to the imposition of these fees. It is, in our view, inconsistent with the public interest. It will discriminate against smaller generic drug companies, many of which are NAPM members. It is anticompetitive and it will ultimately have an effect opposite to the one intended by its proponents.

First, it cannot be stated too strongly, in our view, that imposing user fees on generic drug approvals will not be in the public interest. It is quite clear that generic drug products have become important to the public. These products, which are available universally at lower prices than identical brand name products, are critical to efforts to contain the costs of health care.

This is a significant fact in the lives of individual Americans, most particularly the poor, the elderly, those on pensions, and those on fixed incomes.

If user fees are imposed on the marketers of generic drugs, they will unquestionably be forced to pass on to consumers some, if not most, of these added costs. Increases in the costs of generic drugs, however, will affect more than simply individual consumers. Rather, the problem is national in scope and will affect everyone.

Large amounts of public moneys are now spent on drug products, either through Government financed reimbursement programs, or through direct Government purchases.

In recent years, the availability of high quality but low cost generic drug products has played a significant role at both State and Federal levels in the ability of these programs to limit costs. The continued success of these programs requires that drug costs be kept as low as possible.

The application of user fees to Federal drug approval activities will force the cost of generic drugs, that are to be paid for by public funds, to rise. The amount of public funds needed to pay for them will obviously need to rise similarly.

A user fee policy will also be anticompetitive and that will also push up drug costs. Unlike products produced by brand name manufacturers, where FDA approval usually carries with it a marketplace monopoly, approval of the generic drug product is rarely more than a license to compete with identical products already on the market.

At present, the generic drug marketplace is for the benefit of consumers. It is intensely competitive. Success in this marketplace is generally dependent on price and upon a firm's ability to bring particular products to market as business interests dictate.

Not only will user fees cause higher prices in products that are marketed, they will also reduce the number of different generic products that will be marketed, and may even reduce the number of firms that market generic drugs.

Generic drug applications, or ANDA's, as they are known, even under existing circumstances, are expensive to prepare for purposes of submission to the FDA.

Bioavailability and bioequivalence testing alone can cost thousands if not tens of thousands of dollars. Addition of substantial fees to this already significant expenditure will force generic manufacturers to be more selective about marketing decisions.

As a consequence, many generic drug manufacturers, whose resources are already limited, will be forced to restrict market penetration to fewer products. Not only will this have an adverse consequence on competitive prices of individual products, but manufacturers may also be precluded from marketing the types of products that are essential to maintaining a profitable business.

The result will be a significant reduction in competition among those companies and products that remain on the market, with losses of job and invariably higher prices resulting.

Just last September. Congress passed the Drug Price Competition and Patent Term Restoration Act of 1984. The purpose of this legislation was to promote the introduction into the marketplace of generic drugs—generic versions of drugs first introduced into the American market after 1962.

While this legislation does not make all drugs immediately available in their generic form, it at least opens up the generic market to drugs introduced after 1962 and off-patent.

Since enactment of this law, FDA has been swamped with generic drug applications, many for drugs formerly available only at the higher prices charged by the brand name industry.

It is high irony that this push for user fees comes so quickly after the enactment of this legislation. The imposition of user fees will do more to take away the benefits that Congress and President Reagan foresaw.

The purpose of this legislation was to make the marketplace for drugs in the United States more competitive and the effect of user fees will be to make it less competitive.

A user fee policy imposed on generic drug manufacturers will always be discriminatory. There have recently been expressions of views from the brand name pharmaceutical industry. They think that user fees will be acceptable if used to improve FDA's drug approval process.

The simple truth behind these views is that brand name companies, given their size, and the potential for profits associated with the products that they market, can afford to pay user fees.

The segment of the generic drug industry comprised of smaller companies with far smaller profits cannot afford to pay them.

I would like to conclude by emphasizing what we believe is the most important point to be made: The imposition of user fees on manufacturers of generic drugs cannot produce the results intended. It will not reduce Government costs for drugs; rather, such costs will increase well beyond the amounts collected, due to the increased generic drug prices that these fees will cause.

User fees for the drug approval process are not in the public interest and they should be, as they have been before, emphatically rejected.

Thank you, Mr. Chairman. This concludes my prepared testimony.

Senator BURDICK. Thank you. Your statement focuses on user fees for generic drugs. What is your position on the imposition of user fees on new drugs?

Mr. PESKOE. I do not—our position is that we do not think user fees are a good idea.

Some of the same problems that we mentioned with respect to generic drugs will also occur with respect to brand name drugs, drugs purchased by the poor, the elderly. Just like generic drugs, they are purchased by the Government under Government funded programs.

So there are going to be substantial problems associated with user fees even with respect to that market, but at the same time, there are significant differences between the brand name industry and the generic drug industry.

For whatever reasons that the brand industry believes it can accommodate these fees, those reasons do not apply to the generic drug industry.

Senator BURDICK. When Commissioner Young testified before this subcommittee, he assured us that the money from the user fees would go toward the enhancement and improvement of the FDA review mechanism and procedures.

How do you feel about that?

Mr. PESKOE. Well, we certainly feel FDA procedures should be properly funded, and if the program of the FDA is deficient in approvals, it should receive adequate funding so that its procedure and process can be implemented properly. But we don't think that the source of that money should come from the industry in the form of user fees, and particularly the generic drug industry in the form of user fees.

Senator BURDICK. Thank you very much.

[The prepared statement follows:]

STATEMENT OF MILTON A. BASS, GENERAL COUNSEL, NATIONAL ASSOCIATION OF PHARMACEUTICAL MANUFACTURERS

Good morning, Mr. Chairman and members of the Subcommittee. My name is Milton A. Bass. I am General Counsel of the National Association of Pharmaceutical Manufacturers. With me is Mr. George Schwartz, Executive Director of the Association.

The National Association of Pharmaceutical Manufacturers ("NAPM") represents a major cross section of generic pharmaceutical manufacturers and distributors nationally. Virtually all of NAPM's members are involved to some degree in the drug approval process. As generic drug manufacturers, NAPM members must frequently file abbreviated new drug applications, the mechanism by which generic drugs receive FDA approval. NAPM is extremely concerned, therefore, [illegible] user fees on FDA's drug approval processes.

NAPM [illegible] the imposition of [illegible] for FDA's new drug approval activities. It is NAPM's view that the imposition of user fees is inconsistent with the public interest, will discriminate against small generic drug companies, many of which are NAPM members, is anticompetitive, and will ultimately have an effect exactly opposite to the one intended by user fee proponents.

First and foremost, it cannot be stated too strongly that imposing user fees on generic drug approvals will not be in the public interest. We think it is quite clear that generic drug products are important to the American public. These products, which are available universally at lower prices than identical brand name products, are a crucial factor in efforts to contain the cost of health care. This is a significant factor in the lives of individual Americans, most particularly the poor, the elderly, and those on pensions and fixed incomes. If user fees are imposed on marketers of generic drugs, they will necessarily be forced to pass on to such consumers some, if not most, of these added costs.

Increases in the cost of generic drugs, however, will affect more than just individual consumers of drugs. Rather, [illegible], it affects everyone. Large amounts of public monies are now spent for [illegible] drugs, either through government-financed reimbursement programs or through direct government purchases. In these programs, the availability of high quality and low cost generic drug products has played a significant role, [illegible], in the ability of these government-financed programs to limit costs. The continued success of these programs requires that drug costs, particularly generic drug costs, be kept as low as possible. While less global in scope, significant amounts of taxpayer dollars are also spent in direct government purchases of drugs, and here, again, generic drugs are playing an ever-increasing role. The application of user fees to federal drug approval activities cannot but force the cost of generic drugs that are to be paid for by public funds to rise, and the amount of public funds needed to purchase them will obviously need to rise similarly.

A user fee policy will also be anticompetitive, further pushing up drug costs. Unlike products produced by brand name manufacturers, where FDA approval usually carries with it a marketplace monopoly, approval of a generic [illegible] compete with identical products already on the market. The generic drug industry [illegible] the benefit of the consumer, is now intensely competitive [illegible] availability of generically [illegible] of these particular [illegible] [illegible] the [illegible] number of [illegible] will be expanded, and may [illegible] generic drugs.

Generic drugs [illegible], in 1984, even under existing circumstances, the [illegible] requirement [illegible] of submission of the ANDA, proving identity and bioequivalence testing [illegible] time of submission [illegible] [illegible] not but [illegible] manufacturer [illegible] about marketing [illegible] many generic drug manufacturers, [illegible] already [illegible] will be forced to [illegible] market penetration [illegible] products. Not [illegible] on the competition [illegible] products [illegible] which they may [illegible] of [illegible] business. The result will be a significant reduction in competition among those [illegible] that remain in the market, with fewer [illegible] and substantially higher prices for generic drug products.

Last September, Congress passed, and President Reagan signed, the Drug Price Competition and Patent Term

Restoration Act of 1984. The [illegible] purpose of this legislation was to promote the introduction into the marketplace of generic versions of drugs [illegible] introduced into the American market [illegible]. While this [illegible] does not make all drugs immediately available in their generic form, it at least opens up the generic market to drugs introduced after 1962 and now off patent. Since enactment of this law, FDA has been swamped with generic drug applications, many for drugs [illegible] available only at the high cost [illegible] the brand name [illegible].

[illegible] generic [illegible] of user fee legislation. The imposition of [illegible] generic drugs will be [illegible] Congress and President Reagan [illegible]. [illegible] purpose was to make the [illegible] United States more competitive, [illegible] reduce [illegible].

[illegible] manufacturers [illegible] expressions of [illegible] from [illegible] the pharmaceutical industry that [illegible] needed to improve FDA's drug [illegible] behind them [illegible] companies, given their size [illegible] associated with products they [illegible]. The generic drug [illegible] companies, with far smaller [illegible] show.

I would like to conclude by emphasizing what I believe is the most important point to be made on this subject. As I have said before, the imposition of user fees on manufacturers of generic drugs cannot produce the results intended. It will not reduce government costs for drugs. Rather, [illegible] will [illegible] the amount collected, due to [illegible] of generic drug products. [illegible] for the drug approval process [illegible] interest and should be [illegible] rejected.

Thank you, Mr. Chairman. [illegible] proposed testimony [illegible] questions you may have.

CENTER FOR SCIENCE IN THE PUBLIC INTEREST

STATEMENT OF MITCHELL ZELLER, STAFF ATTORNEY

Senator BURDICK. Our next witness is Mitchell Zeller, Center for Science in the Public Interest.

Mr. ZELLER. Good morning, my name is Mitchell Zeller. I am staff attorney for the Center for Science in the Public Interest. CSPI is a nonprofit consumer organization which specializes in food, nutrition, and related health matters. We were founded in 1971 and are now supported by approximately 35,000 members.

Today I would like to discuss a regulatory matter pending at the Food and Drug Administration with which CSPI has been actively involved. I speak of the safety review of sulfiting agents.

We believe our experience with FDA on this issue suggests that a reallocation of budgetary resources, together with a reordering of agency priorities, is desperately needed.

Sulfiting agents are a group of food and drug preservatives that have killed at least five persons and caused many other life-threatening reactions. The five deaths resulted from reactions from sulfite-treated restaurant food.

Since 1970, FDA has been reviewing the safety of all food ingredients, like sulfites, that were previously considered generally recognized as safe [GRAS].

In July 1982, as part of what is known as the GRAS review, FDA issued a proposed rule to confirm that sulfites were safe for use in food. FDA based that proposal on a scientific literature survey that had been completed back in 1976.

At no time between 1976 and 1982 did anyone at FDA bother to update the literature review. In October 1982, my organization petitioned FDA to ban or severely restrict the use of sulfiting agents.

We took this action after discovering numerous studies published between 1976 and 1982 which demonstrated that sulfites pose a life-threatening health hazard to asthmatics and other sensitive individuals.

Since our petition, the deaths of at least five persons have been closely linked to reaction to sulfite-treated restaurant food.

Numerous other sulfite-sensitive consumers have suffered reactions ranging from mild skin rashes to life-threatening anaphylaxis, coma, and brain damage.

During this time FDA has not taken a single regulatory action to curb the use of sulfites.

This committee has indicated its concern over FDA's handling of the safety review of sulfites. In the report accompanying the FDA appropriation bill for fiscal year 1984, the committee stated it was concerned about the quality and pace of FDA's safety evaluation of sulfites. It urged the agency to set aside whatever funds and staff resources necessary to publish a final rule by the end of 1985.

In the report accompanying the fiscal year 1985 appropriations bill, the committee again expressed concern about FDA's failure to expedite the Sulfite Safety Review. The committee noted that FDA had taken certain actions that make it appear unlikely that the agency could meet the deadline for the final rule established by the committee.

There is no question that sulfites are a public health hazard and FDA has understood that fatal and near-fatal reactions have been linked to sulfite-treated food.

Though FDA has publicly recognized the hazards posed by sulfites, it has postponed taking regulatory action. Instead, FDA has appointed two advisory committees to study the sulfite problem.

One of these committees recently completed its deliberations on January 31 of this year. The advisory body that first reviewed the safety of sulfites in 1976 reversed its original conclusion and confirmed that sulfites were not safe for sensitive persons. It recommended a partial ban on the use of sulfites in food.

I will also point out that the other advisory committee has yet to hold its first meeting, and that its charter has recently expired.

The inadequacy of FDA's response to the sulfite problem has prompted oversight hearings in the House and the introduction of legislation in the Senate which seeks a limited ban on sulfites in food.

Sponsors of that legislation made it clear that congressional action would not be needed and several deaths would have been averted if FDA had acted in a meaningful and expeditious manner to the hazards of sulfites.

We believe FDA has needlessly sidetracked its safety review of sulfiting agents. This committee had expected FDA to complete the GRAS review of sulfites by the end of fiscal year 1985. FDA apparently does not share the committee's concern, because it recently stated that it doubts that such a deadline can be met.

In conclusion, we urge the committee to require that FDA complete the safety evaluation of sulfites during the upcoming fiscal year.

We thank the committee for this opportunity to testify and will be happy to answer any questions.

Senator BURDICK. Thank you.

Does the FDA argue with you about the five sulfite-related deaths?

Mr. ZELLER. No; in fact, FDA has been stating publicly that there are 12 sulfite-related deaths.

We think that the figure of 12 includes reported deaths that are yet to be confirmed. But whether the number is 5 or 12, we think that those reports are merely the tip of the iceberg, because reaction to sulfites in restaurants—serious reactions—look very much like the person choking, or suffering a heart attack.

We know of victims who, while having a sulfite reaction, were given the Heimlich maneuver by paramedics who mistakenly thought that the people were choking. So we think there are many sulfite-related deaths that have simply been misdiagnosed, or gone unnoticed, or were treated as chokings or heart attacks.

Senator BURDICK. My point is, whether it is 5 or 12 or whatever it is, they don't argue with you about the connection?

Mr. ZELLER. They do not. They publicly stated that reactions can be fatal and life-threatening.

Senator BURDICK. Do you feel that the problem can be alleviated or substantially lessened by a labeling campaign, or is a ban necessary?

Mr. ZELLER. We think that a ban is absolutely essential, and we are on record as opposing labeling as the solution for a number of reasons.

First, sulfites are the first food additive in the last 20 years that have actually killed people. The last time that a food additive resulted in deaths, the FDA banned it.

Second, we are talking about half a million to a million asthmatics who are sulfite-sensitive, and an unknown number of nonasthmatics. So the severity and the widespread nature of the reaction calls for a ban.

Third, there are adequate substitutes for the use of sulfites, for many if not all uses. Let me single out the use of sulfites in salad bars as an example. In salad bars, sulfites are used to keep the lettuce and other vegetables from turning color. And there are adequate substitutes, a combination of citrus and ascorbic acid will work just as well.

So those are three reasons why we think a ban is important.

We oppose labeling because of a variety of problems associated with labeling. The National Restaurant Association also opposes labeling as a solution to the sulfite problem because restaurants many times unknowingly purchase sulfite-treated food from distributors and wholesalers and would not know that their product contained sulfites and would not know to put up a notice.

So, for that reason, the National Restaurant Association agrees with us that sulfites, at least in restaurant food, need to be banned, rather than labeled.

Senator BURDICK. Thank you.

Mr. ZELLER. Thank you.

[The statement follows:]

STATEMENT OF MITCHELL ZELLER

Good morning. My name is Mitchell Zeller. I am a staff attorney with the Center for Science in the Public Interest. The Center for Science in the Public Interest is a non-profit consumer organization which specializes in food, nutrition and related health matters. CSPI was founded in 1971 and is now supported by approximately 35,000 members.

Today I would like to discuss two regulatory matters pending at the Food and Drug Administration -- the "GRAS" Review of food additives and the regulation of health claims on food labels -- with which CSPI has been actively involved. We believe our experience with FDA on the GRAS Review suggests that a reallocation of budgetary resources together with a reordering of agency priorities is desperately needed. As for the health claims issue, we agree with FDA on the need for guidelines that will delineate how such claims can be properly made on food labels.

I. FDA's Safety Review of Food Additives

o Sulfiting Agents

Sulfiting agents are a group of food and drug preservatives that have killed at least five persons and caused many other life-threatening reactions. The five deaths resulted from reactions to sulfite-treated restaurant food. Since 1970, FDA has been reviewing the safety of all food ingredients, such as sulfites, that were previously considered Generally Recognized As Safe or "GRAS". In July 1982, as part of what is known as the GRAS Review, FDA issued a proposed rule affirming sulfites as safe for use in food.

FDA based its proposal to affirm sulfites as safe on a scientific literature survey completed in 1976. At no time between 1976 and 1982 did anyone at FDA update the literature search. In October, 1982, my organization, the Center for Science in the Public Interest, petitioned FDA to ban or severely restrict the use of sulfiting agents as unsafe. We took this action after discovering numerous studies published between 1976 and 1982 which demonstrated that sulfites pose a life-threatening health hazard to asthmatics and other sensitive individuals.

Since our petition, the deaths of at least five persons have been closely linked to reactions to sulfite-treated restaurant food. Numerous other sulfite-sensitive consumers have suffered reactions ranging from mild skin rashes to life-threatening anaphylaxis, coma, and brain damage. During this time -- in the face of mounting evidence that sulfites were causing needless pain and suffering -- FDA has not taken a single regulatory action to curb the use of sulfites.

This committee has indicated its concern over FDA's handling of the safety review of sulfites. In the report accompanying the FDA appropriations bill for Fiscal Year 1984 the committee stated it was "concerned about the quality and pace of FDA's safety evaluation of sulfites," and urged FDA to "set aside whatever funds and staff resources are necessary to publish a final rule governing the use of these agents by the end of 1985." S. Rep. 98-160, 98th Cong., 1st Sess., p. 104.

In the report accompanying the Fiscal Year 1985 appropriations bill the committee again expressed concern about FDA's failure to expedite the sulfite safety review. The committee noted that FDA had taken certain actions during Fiscal Year 1984 that made it appear unlikely that the agency could meet the deadline for a final rule established by the committee. S. Rep. 98-566, 98th Cong., 2d Sess., p. 123.

There is no question that sulfites are a public health hazard. FDA has acknowledged that life-threatening reactions have been linked to sulfite-treated food. Over two years ago, the agency stated that

> Recent medical findings have linked ingestion of sulfiting agents to severe adverse reactions among sensitive individuals, primarily asthmatics. Individuals affected have been reported to suffer life threatening respiratory distress, shock, and even coma after consumption of food treated with sulfiting agents.... Fresh green vegetables salads may be a source of acute exposure to sulfiting agents among persons ingesting average servings of food.1/

More recently, FDA acknowledged the existence of sulfite-related deaths. In a "Talk Paper" issued on September 26, 1984, the agency stated that "[m]ost sulfite reactions are not severe, but some can be fatal." FDA also stated that "the continued unlabeled use of sulfites poses a serious health problem to those people who are sensitive to these chemicals." FDA Talk Paper, September 26, 1984, pp. 1-2.

Though FDA has publicly recognized the hazard posed by sulfites, it has needlessly postponed taking regulatory action ... instead employing stalling tactics designed to make it appear as if the agency is actually doing something. For example, in typical knee-jerk bureaucratic fashion, FDA opted for that pet non-solution -- the appointment of an advisory committee. But in this case, FDA decided that just one advisory committee would not do; so, last year the agency announced the appointment of two committees to study the sulfite problem. 49 Fed. Reg. 15,021 (April 16, 1984); 49 Fed. Reg. 27,994 (July 9, 1984).

One of these committees recently completed its deliberations. On January 31, 1985, FASEB, the advisory body that first reviewed the safety of sulfites in 1976, confirmed that sulfites were unsafe for sensitive persons. It stated

> there is evidence in the available information on [sulfites] that demonstrates or suggests reasonable grounds to suspect a hazard of unpredictable severity to such individuals when they are exposed to sulfiting agents in some foods at levels that are now current and in the manner now practiced.2/

The other advisory committee has yet to hold its first meeting, and its charter recently expired.

The inadequacy of FDA's response to the sulfite problem has prompted oversight hearings in the House and the introduction

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1/ Model Food Code Interpretation, "Food Supplies - addition of sulfiting agents to foods in retail food establishments," March 4, 1983, p. 2.

2/ "The reexamination of the GRAS status of sulfiting agents," Life Sciences Research Office, Federation of American Societies for Experimental Biology, Bethesda, Maryland, January 1985, p. 60.

of legislation in the Senate and House which seeks a limited ban on sulfites in food. Sponsors of the legislation made it clear that Congressional action would not be needed, and several deaths would have been averted, if FDA had responded in a meaningful and expeditious manner to the hazards of sulfites.

o Sodium Chloride

FDA's handling of the GRAS Review of another food additive, sodium chloride, also merits special attention. Virtually all medical authorities in the United States, including the Surgeon General, agree that sodium is a major factor in causing hypertension and related diseases. Sixty million American suffer from various degrees of hypertension. Hypertension increases the risks of heart disease and stroke which together account for close to a million deaths in America each year. In addition, hypertension-related diseases cost Americans about $8 billion in health care costs each year.

Currently, it is very difficult to avoid a diet high in sodium. The greatest source of sodium in our diets is processed foods, not the salt shaker. Therefore, using less salt at the dinner table, alone, will rarely solve the problem of excess sodium consumption.

Members of Congress, thousands of health professionals, and numerous other health organizations, including FDA itself, have recognized that steps need to be taken to lower the sodium content of processed foods so that Americans can lower their sodium intake. In fact, as part of the GRAS Review of sodium chloride, FDA's own expert advisory panel concluded that FDA should develop guidelines for restricting the amount of sodium in processed foods.

FDA's attempt to reduce the sodium content of processed foods has been totally unsatisfactory. The GRAS Review of sodium chloride -- the regulatory mechanism that could have accomplished the important public health goal of sodium reductions -- has been deferred for almost three years. Instead, FDA has relied on the food industry to voluntarily reduce the sodium content of its products.

Last week, in his remarks before this subcommittee, Commissioner Young could only say that he expects a decrease in the sodium content of processed foods "with time". Beyond that vague statement, the only data FDA has offered to this committee is the news that 66 new, reduced-sodium products appeared on retail shelves in 1983. The agency fails to point out that today's supermarket contains more than 10,000 products.

Surveys by CSPI show that FDA's voluntary approach has been a dismal failure. A CSPI study of 100 representative foods indicates that a significant majority of processed foods have as much sodium as they did a year ago. Of the 100 foods monitored, the sodium content of 78 remained constant. Ten percent of the products analyzed actually have more sodium today than they did a year ago.

We understand that FDA is using the Food Labeling and Package Survey (FLAPS) to monitor changes in sodium levels. If the FLAPS survey, like the CSPI study, confirms that there has not been a substantial reduction in the sodium content of processed foods under the voluntary program, then FDA should restart the GRAS Review of sodium chloride and develop mandatory regulations to reduce sodium levels.

FDA has needlessly sidetracked its safety reviews of sulfiting agents and sodium chloride. We urge the committee to require that the agency complete these evaluations during the upcoming fiscal year. In the case of sulfites, the committee had expected FDA to complete the GRAS Review by the end of Fiscal Year 1985. FDA apparently does not share the committee's concern over the need to expedite the safety review of sulfites because it recently stated that it doubts such a deadline can be met. In the case of sodium chloride, it is time for FDA to acknowledge the inadequacy of voluntary reductions and, at the committee's urging, complete the GRAS Review so that mandatory reductions can be set in motion.

2. Health Claims on Food Labels

Various segments of the food industry have recently been encouraging FDA to modify its general prohibition against health claims on food labels. The argument being pressed on the agency is that firms should be allowed to use the food label to "educate" consumers about the relationship between certain foods and diet-related disease.

Health claims on food labels can serve as an important mechanism to educate consumers on how to reduce their risk of heart attack, cancer, and other diet-related diseases. However, in the absence of strict regulatory guidelines, such claims can also be used by manufacturers to pass off relatively unhealthy foods as healthful and nutritious. We therefore support FDA's cautious approach in this area and urge that any relaxation of the current prohibition against such claims be accompanied by a statement of enforcement policy clearly delineating the types of claims that will be permitted.

We have already seen what can happen when an agency gives the food industry a clear signal to make health claims in the absence of regulatory guidelines. The Federal Trade Commission withdrew proposed regulations that addressed the use of health and nutrition claims in advertising. The result has been an avalanche of half-baked half-truths, selective omissions, and old-fashioned quackery packaged in a Madison Avenue gloss.

For example, Campbell's Soup, which has urged modifications of FDA restrictions on health claims, recently entered into an agreement with the New York State Attorney General to cease and desist from making a multitude of specious advertising claims about its sodium-laden soup products. These claims, which included deceptive nutrient comparisons, misleading references to government data, and bogus health promises, were also identified as misleading by the Council of Better Business Bureaus.

Campbell's Soup, however, is not alone. New York State entered into cease and desist orders with Coca-Cola Co., Pepsi Cola Co., and 7-Up Co. -- all of which had deceptively advertised and labeled their products as "now made with NutraSweet." Consumer perception studies showed that the claim duped most persons into believing that the beverages no longer contained saccharin -- a carcinogen -- even though the products contained twice as much saccharin as NutraSweet.

In another case, New York State required the Beef Industry Council to qualify its "Beef Gives Strength" motto with the caveat that "Beef alone won't make you strong." In still another case, the coffee industry was claiming that "coffee lets you calm yourself down" and gives you "vitality." Those claims continued until the Council of Better Business Bureaus pressured the National Coffee Association to halt the campaign.

While these cases have been settled, many other examples of deceptive health claims by the food industry abound. The egg industry, for example, is claiming that eggs are nutritious without disclosing their cholesterol content. The dairy industry has claimed that sour cream is "food for fitness."

To prevent a similar onslaught on the integrity of the food label, it is essential that FDA carefully prepare enforcement policy guidelines aimed at ensuring that health claims will serve their intended purpose, i.e., to educate, not deceive. We understand that the agency is now reviewing such measures recommended by the food industry and consumer organizations. Until such guidelines are issued, we urge the committee to support FDA's current moratorium on health claims in food labeling. In the absence of regulatory guidelines, health claims may cause more harm than good.

We thank the committee for this opportunity to testify and would be pleased to answer any questions.

ASSOCIATION FOR BIOMEDICAL RESEARCH

STATEMENT OF FRANKIE L. TRULL, EXECUTIVE DIRECTOR

Senator BURDICK. Our next witness is Frankie L. Trull, executive director of the Association for Biomedical Research.

Ms. TRULL. Thank you, Mr. Chairman.

Today I am speaking on behalf of both the Association of Biomedical Research and the National Society for Medical Research. These two organizations are in the final stages of merging to form the National Association for Biomedical Research, which represents both corporate and nonprofit institutions.

Our membership includes over 300 universities; hospitals; medical and veterinary schools; pharmaceutical, chemical, and contract testing companies; animal dealers; research institutes; and scientific, academic, and professional societies.

All members are directly affected by the Animal Welfare Act and are, therefore, vitally interested in the future of the Animal and Plant Health Inspection Service of the Department of Agriculture.

It was with great alarm that we learned that the administration has proposed the elimination of the APHIS Animal Welfare Program. The immediate suspension of Federal inspections of USDA-registered research facilities and dealers for compliance with the Federal Animal Welfare Act would be disastrous.

As you are aware, the Animal Welfare Act is the only Federal statutory authority for the inspection of research facilities. For the last 4 years, the administration has proposed drastic cuts in the Animal Welfare Inspection Program. This subcommittee, and ultimately the Congress, have wisely continued funding for this essential activity. We would like to take this opportunity to thank you for this support.

Once again the scientific community urges you to support APHIS with an appropriation adequate to ensure that the USDA is able to perform its legally mandated responsibilities.

Scientific and animal welfare organizations alike are in agreement that research will not enjoy public support and confidence without an acceptable national regulatory framework and uniform standards for the care of laboratory animals.

The recommendation by the administration—that the States, industry, and humane groups take responsibility for the humane treatment for animals—is totally unworkable.

State organizations are unprepared to assume such duties. They do not have qualified personnel or the necessary experience. With State-by-State interpretation of the regulations, a nonsystem would result from this recommendation.

By enacting the Animal Welfare Act 20 years ago, Congress recognized the Federal role in regulating animal use in research. This role has been reaffirmed in subsequent amendments to the act and must be continued to ensure the American public that laboratory animals are cared for appropriately.

Further, inadequate funding of the APHIS Inspection Program could seriously impede medical research. If faith and trust in the current enforcement program is lost, there will be increased pressure from the American public to curtail or possibly eliminate the use of animal models for biomedical research and testing.

Congress has and will continue to receive constituent pressure to strengthen the existing laws governing the care of laboratory animals, because the public is concerned with existing enforcement efforts. To dilute APHIS's effectiveness at this point would only escalate that concern.

Rather, a modest investment in improving the agency's ability to perform the quality and quantity of inspections is in order.

There is great concern on the part of critics and supporters of animal research alike, that due to limited funds, APHIS inspectors are not able to inspect facilities as frequently as they should.

To ensure that all licensed USDA facilities comply with the act, it is recommended that each facility, dealer, and exhibitor, receive at least three inspections each year, depending on the history of each individual facility.

Those facilities which are consistently in compliance with the act would not logically require as many inspections as those sites which continually have deficiencies.

Based on fiscal year 1983 APHIS-reported inspections, it is our understanding that each licensed facility is inspected an average of 2.5 times per year. The figure drops to approximately 1.7 times per year for each research facility. This results from the fact that many research facilities, particularly universities, have laboratory animals housed at more than one site.

Therefore, to ensure that all research facilities receive at least three inspections per year, the Association for Biomedical Research and the National Society for Medical Research requests that this subcommittee increase the APHIS inspection budget from $4.8 million to $6.5 million.

It is anticipated that this modest increase in financial support could improve the inspection program and increase the public's confidence significantly. With this increased appropriation, we also recommend additional, more comprehensive, and more uniform training of APHIS inspectors. It has been our experience that the more informed and educated the inspectors are, in the field of laboratory animal medicine, the more constructive and complete their inspections are.

It is in no one's best interest to have unqualified APHIS personnel inspecting laboratory animal facilities.

Mr. Chairman, we recognize the importance and the necessity of practicing austerity during these most difficult fiscal times. Further, we support only responsible and humane animal research. But we firmly believe that the future of biomedical research is dependent upon public confidence and support. Without a sound, reasonably funded Animal Welfare Inspection Program, we will lose that confidence. The APHIS Program is worthy of your support.

Thank you for permitting me the opportunity to comment.

Senator BURDICK. Thank you for your testimony.

CONGRESSIONAL WITNESS

STATEMENT OF HON. DONALD RIEGLE, U.S. SENATOR FROM MICHIGAN

Senator BURDICK. Our next witness is Mr. Eugene Schmall, accompanied by Senator Riegle, I believe.

Senator RIEGLE. Mr. Chairman, it is a pleasure to appear before you, as the chairman and my good friend, and introduce to you Mr. Eugene Schmall, who does come from my home State of Michigan and who is the president of the Camall Co. in Romeo, MI.

The Camall Co. manufactures generic pharmaceuticals, enabling millions of Americans to purchase low-cost, high-quality drugs. Over 90 percent of the generic drug dollar goes to companies on the east coast. So, I am pleased Mr. Schmall is able to engage in this kind of business from a Michigan position.

However, what Mr. Schmall is here to talk about today threatens not only the Camall Co. in Romeo, MI, but the generic drug business across the country.

Last year, Congress enacted a compromise bill providing the brand name pharmaceutical companies with greater patent protection for more recently introduced brand name drugs. In exchange for this added protection, generic drug companies were provided with simplified and expedited drug approval procedures.

Now, the FDA is proposing to upset this delicate arrangement by instituting user fees for evaluating drug approval applications.

Because generic drug companies are small, as compared to the multinational brand name pharmaceutical companies, in most cases they would be unable to introduce new generics, because they would be unable to pay the relatively large application fees. This would completely undermine the important legislation that we enacted last year.

I want to just say one other thing. I think the cutbacks in the budget for FDA will create a real squeeze in this area. I think it is but another example of a proposed change that has to be looked at carefully.

Rather than go on at length, I want to introduce Mr. Schmall and let him explain the situation from the perspective of someone who is truly an expert witness and in the forefront of his field.

Senator BURDICK. Fine.

CAMALL CO., ROMEO, MI

STATEMENT OF EUGENE M. SCHMALL, PRESIDENT

Mr. SCHMALL. Thank you, Senator Riegle.

Mr. Chairman, my name is Eugene M. Schmall. I am president of the Camall Co., a generic pharmaceutical manufacturer.

Senator Riegle has expressed my thoughts so completely that I am going to go straight to those products that are on the market which have been approved through the ANDA process, and give an indication of the amount of money that has been saved by these ANDA approvals.

For the brand name product hydrodiuril, the generic name hydrochlorothiazide, 80,000 kilos of the raw material are manufactured and converted into 50 milligram tablets. This comes to 1,280,000 bottles of 1,000 tablets.

The generic price at the manufacturer's level is $3 per 1,000 tablets or $3,840,000. The brand name price, which is very, very low for a brand name is $64.03 for 1,000 tablets or $80,958,400.

So, in 1 year this one product with a number of ANDA approvals from the Food and Drug Administration has saved the people of this country $78,118,400.

The Department of Defense and the Veterans Administration buy together [illegible] annual supply schedule. The purchases for the last 6 years combined are approximately 48,000 bottles of 1,000 tablets each.

The average price they have paid is $1 per 1,000 tablets. I will skip the mathematics, but what it means is they have paid $432,000 in 1 year. Under the brand name price, they would have paid $9,220,300. So the Department of Defense saves each year, $8,788,320 on one product.

One other example I would like to make is the brand name product diabinese. In 1984, 13 generic drug manufacturers were approved to manufacture the generic version of diabinese. Diabinese brand name, 100-milligram tablets, sells for $148 for 1,000 tablets. The 100-milligram of the generic sells for $17.50 for 1,000 tablets, or a savings of $130.50.

The 250-milligram brand name product sells for $314 per 1,000 tablets; the generic, $25.50 per 1,000 tablets, a savings of $288.50.

One other point that I would like to make: That of the 13 approved generic drug companies, 11 of them are located on the east coast of the United States. Two of them are located in Colorado. The rest are located in New York, New Jersey, Connecticut, and Pennsylvania.

If a user fee is instituted, especially on supplements, these companies will be frozen in place. Those companies on the east coast that are now the leading moneymakers, will retain their place.

If user fees are instituted, there will be no new men on the block. People will not be able to afford to come into this business. It is a risky business. It is price intensive. There are not great profits unless you are the only company with the ANDA approval.

Camall Co. moved from Washington, MI, to Romeo, MI, a year and a half ago, 5 miles north. Under the user-fee schedule, we would have had to file, because we had 30 ANDA approvals at the time, 30 new facility supplements, 30 stability study supplements, and 30 labeling supplements for a cost of $45,000.

Additionally, in the last 1½ years, Camall Co. had to file the following supplements since our move: FDA mandated label changes, 17; USP supplemental changes, 17; supplier changes, 17; chemical changes, 8; and container enclosure changes, 23; analytical laboratory changes, 30; for a total cost of $56,000 in user fees if we had to pay them.

So to move to a larger and better facility, it would have cost Camall Co. in supplemental fees $101,000. Obviously, we would not and could not move. We cannot borrow money to pay for the cost of user fees.

Thank you, Mr. Chairman. This concludes my prepared testimony. I will be happy to answer any questions you may have.

Senator BURDICK. Thank you for your very fine statement.

Mr. SCHMALL. Well, thank you, sir.

Senator BURDICK. You made your point very clear.

Mr. SCHMALL. Thank you, again.

[The material submitted by Mr. Schmall follows:]

LETTER FROM EUGENE M. SCHMALL

The Honorable Thad Cochran April 10, 1985
Chairman, Appropriations Subcommittee on
Agriculture, Rural Development and Related Agencies
United States Senate
S.R.O.B
Washington, DC 20510

Dear Senator Cochran,

The request being made of the Subcommittee is to reject the part of the 1986 Food and Drug Administration budget which contains the user fees for Abbreviated New Drug Applications and Abbreviated New Drug Application supplements.

Witness list:

Eugene M. Schmall, President
Camall Company

Sincerely yours,

Eugene M. Schmall
President
CAMALL COMPANY

Food and Drug Administration's request for Users Fee:
The impact on the national deficit

The users fee in the Food and Drug Administration's budget for the year 1986 will increase the national deficit.

The FDA's users fee will diminish competition thereby raising prices, and establish a mini-monopoly for those companies that have abbreviated new drug application approvals. This will increase the cost of pharmaceutical products.

The city, county, state and federal governments make up the major purchasers of pharmaceutical products.

Any action that increases the cost of operating this country's pharmaceutical industry is paid, in a major part, by this nations government, thus increasing the national deficit.

A 25 million dollar increase for the FDA budget, earmarked for the NDA-ANDA approval system, would speed up the introduction of generic drugs, saving the government's of this nation a mind boggling amount.

For example, Valium Tablets in the generic form have been sold in Canada for years at $10.00 or less per 1000 tablets. In this country, the Department of Defense, Veterans Administration, and various governments pay at least $194.00 per 1000 tablets. Valium is a 250 million dollar market at $194.00 per 1000 tablets. A total of 1,358,695 bottles of 1000 tablets of Valium are sold each year at approximately $194.00 per 1000 tablets or 250 million dollars. With the generic version selling at $15.00 per 1000 tablets, the cost would be $20,380,425, a savings of 230 million dollars to the public and the governments of this nation. These figures are approximate but tell a real story of why the FDA's budget should be increased by 25 million dollars to expedite the approval of ANDA's. An increase in the budget for the FDA is a decrease in the national deficit.

Food and Drug Administration's request for Users Fee:
The impact on the national defense

This nation's ability to deliver health care material to our military forces, and to our civilian population is just as important as the supply of ships, tanks, planes, and guns.

More than 50% of this nation's drug production is centered on the east coast: New York, New Jersey, Connecticut, Pennsylvania, Maryland, Delaware & Washington.

· See attached chlorpropamide ad

As an example in 1984, 13 companies received approval to market the generic version of Diabinese. Eleven of these companies are located on the east coast. (see attached copy)

One act of sabotage or one national disaster affecting the east coast would severely hamper this nation's pharmaceutical delivery system.

The users fee will discourage the pharmaceutical industry from relocating to other parts of this country.

Camall Company, located in Romeo, Michigan, would have to pay from 1.2 to 2 million dollars in users fees just to play catch up on pre-1962 abbreviated new drug applications.

The FDA budget and the pharmaceutical industry are part of this nation's defense and should come under the same protective umbrella as the Pentagon and the Department of Defense.

Generic Drug/Mfr.	Brandname/Active Ingredients	Principal Indication	Type of approval	Date approved
Pfizer	Diabinese 100 mg. 148.00 per 1000 Tablets			
Generic	Chlorpropamide 100mg. 17.50 per 1000 Tablets		Save	$130.50
Pfizer	Diabinese 250mg. 314.00 per 1000 Tablets			
Generic	Chlorporpamide 250mg. 25.50 per 1000 Tablets		Save	$288.50
Chlorpropamide				
Barr Labs New Jersey	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	10/19
Bolar Pharm New York	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	4/12
Chelsea Labs (Rugby Labs) New York	Chlorpropamide 100 mg, tab	Blood glucose regulator	ANDA	9/24
Colmed Labs Colorado	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	8/30
Cord Labs (Geneva Generics/Ciba-Geigy) Colorado	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	8/31
Danbury Pharmacal (Henry Schein) Connecticut	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	9/26
Duramed Pharms New York	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	10/16
Lemmon (Natter-mann & Cie) Pennsylvania	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	10/11
Mylan Labs Pennsylvania	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	6/1
Par Pharm. New Jersey	*Chlorpropamide*. Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	2/27
Pfizer Labs (Pfizer) New York	*Diabinese*. Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	SL	10/18
Superpharm (Generix Drug) New York	Chlorpropamide 100 & 250 mg, tab	Blood glucose regulator	ANDA	9/17
Zenith Labs New Jersey	Chlorpropamide 100 mg, tab	Blood glucose regulator	ANDA	10/25

OR: original SO: supplemental original AO: approvable original ANDA: abbreviated original CON: conditional approval SL: supplemental labeling B: biological product licenses issued.

SL = 2   OR = 1

Food and Drug Administration's request for Users Fee:
The impact on Camall Company and the State of Michigan

Don't let them shut your state out of the generic drug business.

More than 50% of the generic drug money goes to the east coast companies.

Camall Company just received approval to market four potencies of Hydralazine HCl Tablets, at a cost of approximately $40,000 by doing the applications in-house.

If Camall Company had to pay a users fee of $8000 per application, Camall Company would have had to pay an additional $32,000.

The users fee would, if not prohibit Camall company from filing, at least slow us down to one product per year.

Under the $500 supplement fee schedule, Camall Company would have had to pay the following fees when Camall Company moved to its new facility in Romeo.

New facility supplements	30 X $500	$15,000
Stability study supplements	30 X $500	$15,000
Labeling supplements	30 X $500	$15,000

A total of $45,000 in supplements for moving 5 miles north.

Additionally, in the last 1 1/2 years, Camall Company had to file the following supplements:

FDA mandated label changes	17 X $500	$ 8,500
USP supplemental changes	17 X $500	$ 8,500
Supplier changes	17 X $500	$ 8,500
Chemical changes	8 X $500	$ 4,000
Container/closure changes	23 X $500	$11,500
Analytical laboratory changes	30 X $500	$15,000

FOR A TOTAL OF $56,000

So to move to a larger and better facility and for the supplements filed since the move, it would have cost Camall Company in supplement fees - $101,000. Conclusion - Camall Company would not move, and could not grow.

For Camall Company to play catch up wiwth the generic drug companies on the east coast, Camall Company will have to file on 75 basic drug entities with an average of two potencies each. That comes to 150 ANDA's at $8000 each, or $1,200,000 in users fees plus supplement costs. These costs will shut Camall Company and the State of Michigan out of the generic drug market.

SUBCOMMITTEE RECESS

Senator BURDICK. This brings our hearing for today to a close.

We will again hear from the congressional and nondepartmental witnesses regarding the 1986 budget tomorrow in the same room beginning at 9:30 a.m. Until then, the subcommittee will stand in recess.

[Whereupon, at 12:20 p.m., Tuesday, April 16, the subcommittee was recessed to reconvene at 9:30 a.m., Wednesday, April 17.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1986

WEDNESDAY, APRIL 17, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:40 a.m. in room SD–124, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Abdnor, Kasten, Mattingly, Specter, Burdick, Sasser, and Bumpers.

NONDEPARTMENTAL WITNESSES

OPENING REMARKS

Senator COCHRAN. The subcommittee will please come to order.

We continue hearing today from congressional and nondepartmental witnesses who are here to present their views to the subcommittee in regard to the 1986 request for programs and activities under the jurisdiction of this subcommittee. We have a full slate of witnesses today, and we hope that each of you will cooperate with the committee and limit your presentation to the allotted 5 minutes. Your prepared statements have been received and will all be made a part of the record in full.

I have been asked to tell you that the subcommittee cannot receive any copyrighted material for publication unless arrangements have been made in advance to obtain the permission of the copyright owner that those materials can be included in the hearing transcript. This notice is given to protect copyright owners as well as the subcommittee and witnesses.

We welcome all of you to the hearing, and we thank you for being here and for assisting the committee as we go about trying to accumulate information on which to base decisions regarding the appropriate level of funding for the activities of the Department of Agriculture and the related agencies that come under our jurisdiction. We look forward to having the benefit of your views and observations.

NATIONAL COTTON COUNCIL OF AMERICA

STATEMENT OF WILLIAM H. HOUSTON, VICE PRESIDENT

Our first witness this morning, I am pleased to say, is from my State, Bill Houston, a good friend, an outstanding citizen of the State of Mississippi. He is vice president of the National Cotton Council of America. We welcome you to the committee and ask you to come forward to the witness table and proceed with your presentation to the committee.

Mr. HOUSTON. Thank you, Mr. Chairman.

I am William Houston, a cotton farmer from Tunica, MS, and vice president of the National Cotton Council, on whose behalf I appear today.

The council represents producers, processors, and handlers in 18 cotton-producing States. Mr. Chairman, we vigorously support a balanced reduction in the Federal deficit. We in agriculture are willing to do our part, because we believe reducing the deficit is the surest way to bring the dollar into a more favorable relationship with other currencies and make us competitive in the world markets.

A pressing issue, however, that directly relates to the deficit and to improved competitiveness in the public marketplace is agriculture research services and extension. We feel that maintaining adequate budgets in both these areas is not only a competitive necessity, but a sound national investment that will pay dividends far in excess of the cost.

U.S. agriculture is up against stiff and growing competition from markets at home and abroad. Virtually all of our commodities must now compete with farm production that more often than not is subsidized. In recent years, much of agriculture has suffered market losses, especially overseas. This declining competitiveness in export markets is a serious threat, not only to the strength of American agriculture, but to the strength of the Nation's economy, as well.

Through research, we must find new ways to reduce production costs in order to compete effectively with these markets. For this reason, we are compelled to recommend adjustments in USDA's proposed fiscal year 1986 budget in agriculture research.

We know that the budget would cut $9.2 million from Extension Service funds earmarked for pest management and pesticide impact assessment, totally eliminating Federal funding for pest management programs which have proved to be highly effective in reducing pest management costs. The cut also would eliminate $1.5 million for an ongoing and highly successful boll weevil management program in the 11 States that were originally infested. Weevils have since invaded Arizona, Florida, California, and Mexico.

We strongly urge the extension of pest management funds and adding $200,000 for boll weevil management in the newly infested States. The funding of the $1.7 million should be retained for Extension's Pesticide Impact Assessment Program, which helps keep a reasonable benefit-risk balance in pesticide regulations.

Regarding APHIS programs, Carolina farmers are highly enthusiastic about prospects for completely eliminating the boll weevil in their States. The 2-year program, which has operated at 70–30 percent grower/Federal cost share, is due to be terminated on June 30. But the combination of two dry summers and a late frost forced longer diapause spraying than anticipated, and this APHIS program costs us.

We strongly recommend that the program be extended until the end of the year to take care of scattered weevils before the containment program begins. An additional $500,000 is needed to cover APHIS's 30 percent cost share for the first 3 months of fiscal year 1986.

Growers in Georgia, Alabama, and Florida are making plans to expand the program to their States and grower referenda will vote on this question this fall. An additional $5.9 million is needed to cover the Government's 30 percent cost share for this program in fiscal year 1986.

The administration budget also ignores the commitment to the Weevil Eradication Program that was implemented in parts of Arizona, California, and Mexico last year. Funding of $1.4 million is needed to continue this program.

We are seriously concerned, too, about the $157,000 cut in funds for the cooperative program that has held the weevil in check on the Texas High Plains. Farmers have invested heavily in this program to keep the weevils out and the proposed cut needs to be restored.

We also ask that the proposed $1.4 million cut in the belt-wide Pink Bollworm Program be restored. APHIS' role in this program is essential, and elimination of these funds would wipe out the Federal-State Quarantine Program, which has worked well for many years.

In conclusion, Mr. Chairman, we wholeheartedly support the testimony of the U.S. Agriculture Export Development Council in regard to the General Sales Manager [GSM] Export Credit Guarantee Program and the foreign market development programs administered by USDA's Foreign Agricultural Service. In particular, we urge you to reject the administration proposal to add a 5-percent origination fee to the GSM–102 export credit guarantee programs. We believe the fee will be counterproductive and render the program unusable for import-export customers.

Thank you very much.

Senator COCHRAN. Thank you very much, Bill. We appreciate very much your being here and being the leadoff witness for this hearing today. I think it is an indication of the widespread interest of the programs which come under the jurisdiction of this committee to see the number of persons who have expressed an interest in testifying before our committee this year. We have set aside 3 full days for taking this testimony from nondepartmental witnesses. I think this is the largest number of witnesses that we have ever had to testify during our hearings.

I am glad to have the benefit of this testimony, particularly, hearing your views about the research and extension programs of the Department of Agriculture. I think there is a tendency sometimes to not put the needed emphasis in those areas, particularly when you are up against a lot of pressure to reduce spending or hold levels of funding the same as last year's levels, which, in many cases, means smaller programs and actual cutbacks in programs.

I hope we can, as a committee, recommend to the Senate levels of funding which address the needs we have that are pressing and serious and can't be met in any other way except through appropriations and the administration of these programs.

One suggestion has already been made in connection with one proposal you referred to, to reduce the origination fee from 5 percent to 2 percent. I don't know whether that is going to be acceptable or not as a compromise.

What would your reaction be to that change in the administration's proposal?

Mr. HOUSTON. Senator, I believe that the fee there would be detrimental, because it would force those countries which need the credit the most to use it with that additional fee and would probably end up, in the long run, costing the Government more money. We feel like if you put it in on that basis, those who avoid the payment will not use the program.

Senator COCHRAN. A lot of what we do this year is going to be determined by the action of the Congress on the budget resolution. That action begins on Monday of next week when the Budget Committee will present its budget resolution to the Senate.

I don't know what the Senate is going to do. We have been working very hard with the administration to reach some kind of accommodation on many of these programs. There is a so-called Senate-Administration Reduction Plan that is floating around now that is being discussed. I don't know whether that is going to be approved by the Senate or not.

But the point I am trying to make is that we know that we are going to probably have less money to deal with than we would like to have, no matter how it comes out. We are going to have to make some tough choices this year. Your testimony about these programs that are important to the cotton industry and important to our State is certainly important to this committee, and I know it will be carefully considered. We appreciate your being here and sharing your views with us.

Mr. HOUSTON. Thank you very much.

Senator COCHRAN. Thank you.

[Mr. Houston's prepared statement follows:]

STATEMENT OF WILLIAM H. HOUSTON

SUMMARY OF REQUESTS

USDA-ARS, CSRS	Increase budgets for agricultural research by 2 percent above inflation rates.
USDA-EXTENSION	Extension pest management program: Restore $1.55 million of earmarked funds for boll weevil management program and add $200,000 for additional states with weevil problem. Total of $1.75 million.
USDA-EXTENSION	Pesticide impact assessment: Restore $1.7 million of earmarked funds for pesticide impact assessment.
USDA-APHIS	Add $500,000 for completing the boll weevil eradication program in the Carolinas.
	Add $5.9 million for boll weevil eradication program expansion in Georgia, Alabama and Florida.
	Fund the second year of the western weevil eradication program by restoring $1.1 million and adding $300,000.
	Restore proposed $157,000 cut in Texas High Plains boll weevil management program.
	Restore $1,393,000 for cooperative federal-state quarantine program for the pink bollworm.

* * * * * *

I am William H. Houston, cotton farmer from Tunica, Mississippi and vice president of the National Cotton Council on whose behalf I appear today. The Council is the central organization of the U. S. cotton industry, representing growers, ginners, warehousemen, cottonseed crushers, merchants, cooperatives and manufacturers from California to the Carolinas.

At the Council's annual meeting in February, the 299 delegates selected by 91 separate state, regional or national organizations strongly endorsed expanded agricultural research programs. In a unanimous resolution, they expressed continuing support for "...appropriations for cotton research and Extension programs conducted by USDA and Cotton Belt states, including federal funds for cotton and cottonseed research that provide for efficient program growth to adequate levels, recognizing that such action is not inflationary and will produce public benefits far in excess of its costs."

Their resolutions were prompted by the basic premises that:

(1) Agricultural research, both basic and applied, is essential to our nation's well-being and to its future. Without it, agriculture will not continue to be this country's largest and most productive business.

(2) Even though agricultural research is expensive and requires sufficient time to be accomplished, its benefits far exceed its costs. Like other research, it requires trained scientists, proper facilities and scientific equipment that is costly but imperative. Because it involves biological systems and organisms, agricultural research must be established through long-range commitments of resources if it is to provide maximum benefits.

The high rate of return to society from public investments in agricultural research is well documented. Separate studies at Mississippi State University, Virginia Polytechnic Institute and Yale show the annual rates of return on crop and livestock research investments range from 17 to 110 percent. For cotton, it is 35 percent.

(3) The nation's agricultural problems and opportunities are diverse and widely separated geographically, requiring multi-location efforts. Examples include the on-going boll weevil eradication effort in the Carolinas and the pink bollworm and aflatoxin efforts in California and Arizona.

(4) Production research with its goal of lowering production costs and increasing farmer profits is a powerful anti-inflationary force. Lower costs allow U. S. growers to be more competitive in world markets. Because the strength of the American dollar is making U. S. farm commodities expensive for our foreign customers, we must find new ways to reduce production costs in order to compete effectively for these markets.

(5) The continued erosion of federal funding for agricultural research gravely concerns our industry.

We recognize the need to reduce government spending and inflation. In that vein, we have reluctantly accepted a "no-growth"agricultural research budget and a continued decline in cotton's share in recent years, with the expectation that funding for essential projects would be provided in the future. However, we are compelled to recommend several adjustments in USDA's proposed FY 1986 budget.

The Agricultural Research Service budget is reduced from 1985 levels even though inflation and other added costs are again sharply reducing program efforts. In the past decade, the number of scientist-years in federally funded cotton research has dropped 25 percent. Cutbacks have been made in support personnel and operating funds and research equipment and facilities have been downgraded. As a result, several cotton research programs have been severely damaged.

The budget also proposes level funding for Hatch funds for state experiment stations. With inflation, this means less program. We had hoped for a more adequate increase. We note that earmarked funds for special research programs have been completely eliminated, thus adding to the burden of states and Hatch Act funding to make up the difference.

The apparent lower priority being given to agricultural research in the U. S. is in sharp contrast to steady increases in other parts of the world such as Russia, China, Europe, India and Brazil.

Substantial production efficiency gains in these countries will hurt U. S. agriculture's competitive position even more. We therefore request that funding increases of at least 2 percent above current levels of inflation be provided for the ARS and CSRS programs.

We note that Extension Service programs are proposed to be cut 22 percent. Though the budget contains no change in formula funds, we note that $9.2 million of Extension's earmarked funds for pest management and pesticide impact assessment would be eliminated. Of this amount, $7.5 million would be taken out of Extension pest management programs -- totally eliminating federal funding for these programs. Federal pest management funds make it possible for states to provide professional staff and support materials to plan and carry out educational programs in support of farmers, and these have proven to be a highly effective cost reduction programs. By far, most of the costs to manage pests are paid by farmers themselves.

Included in this elimination of the Extension pest management programs is the $1.5 million allocated for the ongoing and highly successful boll weevil management program in the 11 states originally infested. Since then, weevils have become a serious problem in Arizona, in the southern desert valleys of California and in the cotton-growing area of Florida and are threatening New Mexico.

We strongly urge the restoring of Extension pest management funds, with an increase in the funding level for boll weevil management to $1.75 million. The additional $200,000 will be used in those four states that now have the weevil but are not receiving any of these critically needed special funds.

The proposed $1.7 million cut for Extension's pesticide impact assessment program should be restored since it helps keep a reasonable benefit-risk balance in pesticide regulatory actions. This program provides a valuable service to growers and regulatory agencies alike as it helps to keep reason in decisions regarding usage of important farm chemicals.

Council delegates also endorsed continuation and expansion, where appropriate, of pest management and eradication programs administered by APHIS.

With regard to APHIS programs, farmers in the Carolinas are highly enthused about the prospects of completing the job of eliminating the boll weevil in their states. The two calendar year program is operating at a 70/30 grower/federal cost share. Weevil numbers have been drastically reduced. However because of two years of unusual combinations of weather patterns -- dry summers and late frost dates which caused early initiation of and lengthy diapause spray treatments, automatic spray programs had to be conducted longer than anticipated. Program costs were therefore higher than those budgeted.

We strongly recommend that the proposed program termination date originally projected for June 30, 1985 be extended to the end of the year. This extension would add additional assurance of suppressing scattered outbreaks to levels which can safely be dealt with in the following containment phase of the program. An additional $500,000 is needed to cover APHIS's 30 percent cost share for the first three months of the 1986 fiscal year. This money is needed over and above the $200,000 proposed in the budget for USDA participation in the vitally important containment program.

Growers in nearby states have expressed considerable interest in expanding the program. Plans are underway for a possible start-up in July 1986 for Georgia, Alabama and Florida. Grower referenda will likely be held later this year expressing support for participation in the program. An additional $5.9 million is needed to cover the government's 30 percent cost share of this program in 1986.

With the increasing threat of the weevil in California and Arizona, a boll weevil eradication program is being implemented in the spring of 1985 for parts of Arizona, Southern California and Northwestern Mexico. No money was proposed in the Administration's budget for 1986. Funding of $1.4 million is needed for continuation of efforts in the Western states.

The weevil program in the Texas High Plains is a joint USDA and farmer effort established in 1964 to keep the weevil from becoming established in that area. It is an ongoing program and is highly successful with farmers investing heavily to keep the weevils out. The proposed $157,000 cut in this program needs to be restored.

Congress in each of the past several years has had both the insight and the foresight to restore significant cuts proposed in pink bollworm funds. The FY 1986 budget proposal includes a 58 percent cut which would eliminate the cooperative federal-state quarantine program and other pink bollworm program acitivites. The cooperative federal-state program has worked well for many years and APHIS' role in it is essential. The proposed $1,393,000 cut in this vital program should be restored.

Finally, Mr. Chairman, we want to support wholeheartedly the testimony of the U. S. Agricultural Export Development Council in regard to the GSM export credit guarantee program and the foreign market development programs administered by the Foreign Agricultural Service of USDA.

MASTER MARKETERS ASSOCIATION OF AMERICA

STATEMENT OF ARLO JONES, PRESIDENT, MASTER MARKETERS ASSOCIATION OF AMERICA, SIDNEY, NE

ACCOMPANIED BY ROBERT BOR, COUNSEL, MASTER MARKETERS

UNITED AGRI PRODUCTS FINANCIAL SERVICES

STATEMENT OF GEORGE VOHS, CROP INSURANCE MANAGER, UNITED AGRI PRODUCTS FINANCIAL SERVICES, GREELEY, CO

Senator COCHRAN. Our next witnesses I think we will just call up, if it is all right, as a panel. We have George Vohs, who is crop insurance manager of United Agri Products Financial Services from Greeley, CO; and Arlo Jones who is president of the Master Marketers Association of America, from Sidney, NE.

Both of these witnesses will testify in connection with the Federal Crop Insurance Program. We will ask Mr. Jones to lead off, and then Mr. Vohs will follow him. We are glad you are here. It is good to see you again. You may make your presentation to the committee.

Mr. JONES. Thank you, Mr. Chairman.

My name is Arlo Jones. I am the president of the Master Marketers Association of America, an association that represents 20 master marketers companies and 2,500 independent insurance agency brokers. Accompanying me today is Mr. Robert Bor, counsel for my association and recently chief counsel for the House Agriculture Committee.

The Master Marketers Association is incorporated in the State of Missouri and represents the major portion of the Federal Crop Insurance business written on Federal paper currently handled throughout the United States by private insurance agency brokers.

Our association is very much concerned about the advance notice of proposed rulemaking of the Federal Crop Insurance Corporation published in the Federal Register, March 12, 1985.

In this advance notice, FCIC indicated that it is considering converting the crop insurance business to a system whereby sales of Federal crop insurance through private insurance agents will be discontinued, and crop insurance will be made available only through the underwriting of policies sold by commercial companies. The notice provides little insight as to the basis and justification for the proposal.

We have respectfully requested the FCIC to withdraw its proposal. It is wrong from a legal standpoint and not supported by the language of the Federal Crop Insurance Act or its legislative history. It is also not in the best interests of the Government or the American farmer, and thus is wrong from a policy standpoint.

Contrary to the assumptions made in the advance notice, the Master Marketers are performing a substantial portion of the crop insurance business subsidized by the FCIC and are needed to make the program available on a nationwide basis to a larger segment of American agriculture. It is a cost-effective method of delivering crop insurance, and not any more expensive than that provided by firms reinsured by FCIC. If, nonetheless, FCIC should wish to reduce Federal employment and effect budget savings, the Master Marketers are willing to perform many of the services currently handled by FCIC and request that immediate negotiations be entered into by FCIC to that end.

The consensus of opinion of our membership, and I personally concur, is as follows:

The compensation for the two delivery systems should be based on equal pay for equal work.

Quality control should be exercised equally for all delivery systems.

Crop insurance is the best program ever offered the farmer and the best program offered by the Government from a cost/help standpoint.

The Master Marketers were assured at every sales meeting held by FCIC from 1981 until the fall of 1984 that they were a vital part of FCIC and the competition between the two systems—Master Marketing and reinsurance companies—is very desirable and would remain that way. However, at the 1983 fall meeting, management started hinting that there might be a phaseout of Master Marketing and that the Master Marketers' business should be rolled over to reinsurance companies.

Under the rulemaking proposal, all business must be written under reinsurance companies. The Master Marketers believe that if this rulemaking is allowed to stand:

The Master Marketers will be out of business after spending much money for training, computers, organization, sales promotion, and so forth; and

The insurance companies will insist on making a profit and the rates will necessarily be increased to the point that the farmer cannot afford the coverage; hence, the demise of crop insurance and the only self help program available to the farmer.

The Master Marketers feel that in an effort to make a profit, the reinsurance companies will also be selective in choosing to write only the best business, possibly leaving high risk areas without coverage. In support of this belief, I will submit for the record copies of letters demonstrating that the companies are prone to selecting profitable business. This could possibly leave high risk areas without protection. On the other side of the coin, companies competing for the better business may be paying excessive commissions for business in profitable low risk areas.

[The letters follow:]

LETTER FROM JAMES D. DEAL, MANAGER, FEDERAL CROP INSURANCE CORPORATION

Honorable Ed Jones
House of Representatives
Washington, D. C. 20515

NOV 9 1979

Dear Congressman Jones:

This is in response to your recent request for information on the likely costs of the proposed Crop Insurance program and for information about the role envisioned for the private insurance industry.

We have reviewed our estimates of program participation and government costs, which are summarized in the accompanying table. You will note that we are targeting for 50 percent participation by the fifth year which, with the coverage selections that we anticipate farmers choosing, translates into insurance protection of over $15 billion. The government share of the premium in 1985 would be about $302 million if the subsidy applies to all levels of yield guarantees. The premium subsidy costs under HR 4119 would be about 15 percent, or $58 million in the fifth year, less since the cost sharing would not apply to yield guarantees in excess of 55 percent.

It is projected that operating costs will total about $182 million by the fifth year. Over 40 percent of this total ($75 million) is budgeted for sales and service contracting with the private insurance sector.

Participation of the Private Insurance Sector

The private insurance industry will fill a vital role in achieving a high level of farmer participation in the expanded Crop Insurance program. The FCIC expects to contract with commission agents and insurance companies for policy sales and servicing. The companies will also have an opportunity to write all-risk coverage with FCIC providing reinsurance. Contracting with the insurance industry is being expanded for the 1980 crop, and a substantial further increase will follow in 1981 to implement the expected legislation.

Sales and Service

Three forms of commission agreements were negotiated with the association for our present agents and are being used in 1980. More than one type of contract is being offered as a means to meet the specific needs of FCIC and to tailor the contracted services to varying interests within the industry. Specifically, the contracts are:

1. Sales and Service Agreement provides both selling and servicing crop insurance policies. The commission schedule provides for a competitive first year fee and a reasonable carryover.

2. Sales and Limited Service Agreement provides for selling crop insurance to farmers and handling difficult or problem servicing. The Corporation will contract with other sources for the paperwork making the contractor responsible for only a minimal level of clerical functions. The agent will receive a first year commission approximately equal to the first

type of agreement, but the carryover is lower since the agent is responsible for less paperwork after the first year.

3. Sales Only Agreement provides for selling crop insurance for a "finders fee," or first-year only commission. This agreement will be used on a spot basis to complement the first two contract types.

These agreements will be evaluated and modified as necessary to meet the needs of the Corporation.

A program objective is the maximization of farmer participation, keeping in mind that government costs must be held to a reasonable level. It is thought that the insurance industry will be cost effective in selling at least 80 percent of the contracts with USDA sales for the remainder. The split between USDA and insurance industry sales will vary among geographic areas, but management's plans and budget are being based upon the 80-20 percent split as an average. As previously noted, the industry will earn an estimated $75 million per year for commission sales and servicing by the fifth year if the target of 50 percent farmer participation is achieved.

Reinsurance

FCIC also is committed to a meaningful test of reinsurance through a program extending across several states. Numerous discussions have been held with the insurance industry, and agreement has been reached on the general principles of a program. FCIC expects the reinsured companies to be able to sell insurance to a number of farmers who would not purchase directly from a government agency. Thus, reinsurance should be a means to increase farmer participation.

In summary, FCIC recognizes the mutual interests of farmers, the insurance industry, and FCIC in making successful an expanded program of crop insurance. The private insurance sector, in cooperation with FCIC, has something to offer farmers, and the proposed changes will expand the opportunities available to the industry. Since cooperation is beneficial to the achievement of program objectives, FCIC has been working to expand the involvement of the insurance industry and will remain aggressive in attempting to expand the cooperation further.

We hope that this information will be useful in the consideration of the proposed legislation. Feel free to contact me if we can be of further assistance.

Sincerely,

For James D. Deal
Manager

Projected Participation and Government Costs for Proposed Expanded Crop Insurance Program, 1981-85.

	Crop year				
	1981	1982	1983	1984	1985
Protection (Billions)1/	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Participation (Percent)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Farmer Premiums (Millions)	[illegible]	332.3	[illegible]	[illegible]	[illegible]
Premium Subsidy (Millions)2/	[illegible]	226.4	[illegible]	[illegible]	[illegible]
Total Premium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating Costs (Millions)					
Industry Marketing & Servicing Agreements	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Loss Adjustment	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Other Adm. Costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Adm. & Premium Subsidy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1/ Based upon the assumption that 20 percent of participating farmers choose the 50 percent yield coverage, 45 percent choose the 65 percent coverage, and 35 percent insure with a 75 percent guarantee.

2/ Includes premium subsidy on the 75 percent yield guarantee. If this subsidy is not made available, costs will be reduced by $68 million for 1985 and a corresponding 16 percent for the earlier years.

NEW TRENDS IN AGRICULTURE AND CROP COVERAGE INSURANCE

[From Crop Coverage, January 1985]

In order to be successful, any new service must respond to a need. So it is with newsletters, and CROP COVERAGE is no exception.

CROP COVERAGE has been developed *by* crop insurance professionals *for* crop insurance professionals and others who depend on the existence of a sound and equitable crop insurance program. The goal of its editors is to meet *your* need for a *useful, timely, comprehensive* and *concise* source of information on crop insurance developments emanating from Washington and elsewhere. How will we meet these criteria?

Useful. CROP COVERAGE is produced in Washington, D.C. Its editors have access to the people who make the decisions that affect the lives of so many Americans who work in crop insurance (both Multi-Peril and Crop hail) and agriculture. The columns of CROP COVERAGE will provide insight into the thinking, plans and actions of policymakers in the White House, the Agriculture Department, the Congress, and trade associations and other organizations. These decisionmakers leave their impression on the legislation, regulation and government policy we all live with. Because *we* have access, *you* will have access.

Timely. Each monthly issue of CROP COVERAGE will be written just days before it reaches you. While we can't break news as fast as your daily newspaper, we'll strive to get the kind of inside information your daily paper doesn't provide, and we'll include the kind of thoughtful analysis your daily paper won't provide.

Comprehensive. There are several publications dealing with crop insurance topics on the market, but most of them are highly specialized. They focus on marketing and sales, or actuarial techniques and problems, or research and training. CROP COVERAGE will not specialize in any one functional area. Instead, it will highlight the truly important policy elements in all areas of crop insurance.

Concise. The editors of CROP COVERAGE are economists when it comes to writing. You'll get what you need to know to anticipate developments, form opinions, and generate ideas. But you won't be buried in high-sounding verbiage.

The title CROP COVERAGE was selected because it sums up the scope and intent of the publication. "Coverage" means insurance; it also means news. That is what this newsletter is all about.

Although CROP COVERAGE is underwritten by the Old Republic Insurance Company, its editorial staff is independent, and is solely responsible for the editorial content of the newsletter.

We hope that, after reading this first issue, you will feel we have started in the right direction to meet our goal of serving you. We would enjoy knowing your reaction. Please address any comments, suggestions or questions to the *Editors, CROP COVERAGE, Trade Center Station, P.O. Box 22137, Alexandria, Virginia 22304-9213.*

Tomorrow's Crop Insurance — *The 1986 Insurance Treaty In Transition . . .*

Multi-peril crop insurance has come a long way since the 1980 Act was passed into law. But sometimes we all need to be reminded that the program is still evolving. What will it look like when it reaches maturity? No one knows for certain, but there are clues we can look at now.

Whatever form FCIC takes in the next few years will depend on the ability of the parties involved (FCIC, agricultural leadership in the Congress, lending and credit institutions, and the private sector) to negotiate creative solutions.

On December 19, 1984, FCIC representatives met with leaders in the multi-peril crop insurance industry to discuss the new 1986 Reinsurance Treaty. Few, if any, would agree that it was the best researched draft that could be put together, but it was a starting place.

According to an agency spokesperson, FCIC would hold firm on several points:

— if there is a loss for FCIC, reinsured companies will not receive a profit;

— minimum risk held by reinsured companies must be made higher; and

— oversight of the reinsured companies must be stronger.

While the 1980 Act will not have to be opened (or amended) for crop insurance to be sold only by reinsured companies (which is what the 1986 Reinsurance Treaty takes into account), agricultural leadership in the Congress will be closely watching the transition.

Sources close to the leadership say that they are primarily concerned about two factors. The first is the orderly displacement of government employees. The second is the absorption of the now master marketing sales force into the new delivery system.

Although the President's budget will not be made public until early February, we have heard that OMB Director David Stockman's proposals include the elimination of REA, SCS, *and* FCIC.

MASTER MARKETERS' REQUEST

The Master Marketers are asking Congress that the master marketing system be continued. In our opinion, reinsurance has not proven that it can perform all the functions necessary for the continuation of crop insurance in a manner acceptable to the Government, the farmer, and their own expectation of profit.

We specifically request the committee to include in the appropriations bill a requirement that FCIC continue to use a dual delivery system, the sale of crop insurance policies as presently required by the 1980 amendments.

The Master Marketing Association wishes to introduce a briefing paper prepared by our association's legal counsel, Robert Bor, former chief counsel to the House Agriculture Committee and presently with Bishop, Liberman, Cook, Purcell & Reynolds. This paper substantiates in detail our association's position and I strongly recommend your consideration of it.

[The paper appears following Mr. Jones' testimony.]

In addition, we are providing for the record factual documentation that will sustain our position.

[CLERK'S NOTE.—Additional information was submitted by the Master Marketers' Association subsequent to the hearing. Due to the volume of information submitted, the subcommittee will retain the information in its files.]

As a final comment, the budget proposal by the President is based on a dual delivery system. For this, I refer you to page I–E30 of the appendix to the budget.

Thank you, Mr. Chairman, for allowing me to testify today and to present the views of my association. Mr. Bor and I will be pleased to answer any questions the committee may have.

Thank you.

Senator COCHRAN. Thank you very much.

[The paper prepared by Mr. Bor follows:]

STATEMENT OF ROBERT M. BOR

I am submitting the following statement in behalf of the Master Marketers' Association of America, an association that represents 20 master marketing companies and 2,500 independent insurance agents and brokers. The Master Marketers' Association is incorporated in the State of Missouri and represents the major portion of the Federal crop insurance business currently handled throughout the United States by private insurance agents and brokers.

This statement is submitted in response to the advance notice of proposed rule-making of the Federal Crop Insurance Corporation published in the Federal Register March 12, 1985. The master marketers and their associated private insurance agents have selected this method of reply to the advance notice of proposed rule-making instead of each such person making individual replies.

Summary

In its advance notice, FCIC indicated that it is considering converting the crop insurance business to a system whereby sales of Federal crop insurance through private insurance agents would be discontinued and crop insurance would be made available only through the underwriting of policies sold by commercial companies. The notice is terse and provides little insight as to the basis and justification for the proposal. The primary reasons appear to be the fact that the volume of contracts written by master marketers fell to approximately 40 percent in 1984 and is expected by FCIC to decline further to between 20 and 30 percent this year and that the conversion may result in substantial government cost savings.

We respectfully request the FCIC to withdraw its proposal. It is wrong from a legal standpoint and not supported by the language of the Federal Crop Insurance Act or its legislation history. It is also not in the best interest of the government or the American farmer and thus wrong from a policy standpoint. Contrary to the assumptions made in the advance notice, the master marketers are performing a substantial portion of the crop insurance business subsidized by the FCIC and are needed to make the program available on a nationwide basis to a larger segment of American agriculture. It is a cost-effective method of delivering crop insurance, and not any more expensive than that provided by firms reinsured by FCIC. If, nonetheless, FCIC should wish to reduce federal employment, the master marketers are willing to perform many of the services currently handled by FCIC and request that immediate negotiations be entered into by FCIC to that end.

In the meeting of the FCIC Board held April 10, an internal task force was appointed apparently to implement a change-over to a system as espoused in the notice. If this is so, a final decision has been reached even before the final date for receipt of views as provided in the advance notice.

I had earlier been advised that it is contemplated pulishing in the Federal Register another proposed rule, with more details and justification for the proposal and requesting views on that proposal before a final decision is reached. We respectfully request that the task force be delayed until the rule-making process has been completed and all views have been given serious consideration.

Discussion

To begin with, as a legal matter the Federal Crop Insurance Act requires a multidelivery system -- through the sale of Federal crop insurance by private insurance agents and brokers and through the sale of multiperil crop insurance by private insurance companies reinsured by FCIC. It did not contemplate a single delivery system as would result from the proposed notice.

> Section 507(c) of the Federal Crop Insurance Act states: "In the administration of this title, the Board shall, to the maximum extent possible, (1) establish or use committees or associations of producers and make payments to them to cover the administrative and program expenses, as determined by the Board, incurred by them in cooperating in carrying out this title, (2) contract with private insurance companies and reimburse such companies for the administrative and program expenses, as determined by the Board, incurred by them, under terms and provisions and rates of compensation consistent with those generally prevailing in the insurance industry, and (3) encourage the sale of Federal crop insurance through licensed private insurance agents and brokers and give the insured the right to renew such insurance for successive terms through such agents and brokers, in which case the agent or broker shall be reasonably compensated from premiums paid by the insured for such sales and renewals recognizing the function of the agent or broker to provide continuing services while the insurance is in effect: Provided, That such compensation shall not be included in computations establishing premium rates."

This is a mandate for a dual delivery system. True enough, Section 508(e) of the Act directs the Board to provide reinsurance to the maximum extent practicable, -- this it can do, and has done, by making reinsurance available to all qualified private insurance companies. But, it does not in any way detract from the stronger imperative of to the maximum extent possible encouraging the sale of Federal crop insurance through licensed private insurance agents and brokers.

The legal authority for the program today results from amendments to the Federal Crop Insurance Act adopted in 1980. Prior to that time a crop insurance program had been in effect for a number of years dating back to 1938. Most of that time the program had been carried out on an experimental basis, limited in scope to a few commodities and to but several counties. The program was carried out entirely through the offering of Federal crop insurance. There was authority for a reinsurance program limited to 20 counties. Essentially, however, reinsurance was a dead letter and the authority had never been implemented except in Puerto Rico.

When the bill, S.1125. which ultimately became the 1980 amendments to the Act was reported by the Senate Committee on Agriculture, Nutrition, and Forestry, a number of changes were made in the authority for the crop insurance program. First, it provided for expansion and improvement of the Federal all-risk crop insurance program so as to authorize its availability on all commodities in all counties of the U.S. It also assured that the program would be affordable to all farmers by requiring FCIC to pay a portion of the premium cost. Additionally, and most importantly for the issue at hand, it included provisions to enable the private insurance industry and the independent agents and brokers to participate in carrying out the program. Finally, it provided for the phase out of the disaster payment program.

Senator Huddleston, who was the Chairman of the Subcommittee that had considered the bill and floor leader of the debate, explained the role of the private sector under the proposed legislation. At that time, the bill contained the language exhorting FCIC to make use of reinsurance "to the maximum extent practicable" but had not yet been amended to require the FCIC "to the maximum extent possible" to encourage the sale of Federal crop insurance through private insurance agents and brokers. After discussing the reinsurance provisions, he stated as to the role of private insurance agents:

> "S.1125 also amends the Act to permit the Federal Crop Insurance Corporation to use private companies in administering the program. This will enable the Corporation to use the delivery system of the private industry to market and service Federal all-risk crop insurance on a commission or contract basis. Private industry can bring a wealth of expertise and well-trained personnel to the expanded, nationwide crop insurance program.
>
> There are some 25,000 to 30,000 private crop insurance agents across the Nation who could sell and service Federal crop insurance. The Federal Crop Insurance Corporation, to the maximum extent feasible, should use this valuable resource pool in implementing the nationwide all-crop, all-county crop insurance program under S.1125, rather than establishing a massive new Federal bureaucracy.
>
> To facilitate maximum participation by private insurance agents in the Federal program, the Corporation must take steps to insure that agents are given a fair agreement under which to work." (Cong. Record, September 10, 1979, S.12245)

A comparable House bill was reported to the House. Mr. Ed. Jones, Chairman of the Subcommittee, and a principal author of its provisions stated:

> "H.R. 4119 envisions at least three ways the private sector can assist in and benefit from the expanded program. First would be the use of commissioned agents to sell and service the policies. Recognizing the desire of the Committee to avoid building another huge Federal agency, commissioned agents must be used to carry a large burden of program delivery.
>
> A second method of private-sector participation would be contractual arrangements between FCIC and private companies for the delivery and servicing of the program. The bill allows FCIC broad authority to enter into appropriate agreements with interested companies for performing various functions in administering and delivering the program.
>
> Third, it is generally agreed that if private industry is to offer all-risk crop insurance, Federal reinsurance is necessary to cover the risk of catastrophic losses such as those that arise from large-scale droughts, floods or freezes. H.R. 4119 removes a constraint in current law which limits reinsurance proposals to a 20-county area and stands in the way of private insurance companies entering into reinsurance agreements with FCIC. I will offer an amendment requiring a pilot reinsurance program by 1982." (Cong. Record, February 13, 1980, H. 848)

Later that day in the House proceedings, Mr. Ed Jones offered an amendment to strengthen the role of the private industry in the administration of the program. Among its provisions is the language that currently appears in Section 507(c) of the Act. He stated that the first of the three basic provisions of the amendment was "to assure that private insurance agents and companies are utilized in making the program available to all farmers nationwide". (Cong. Record, Feb. 13, 1980, H859)

The amendment was agreed to and in conference the Senate accepted the House amendment to Section 507(c) of the Act. In explaining the Conference Report to the Senate, Senator Huddleston explained the steps taken to provide an impetus for the development of a private-Federal partnership in providing all-risk insurance to U.S. farmers. He stated:

> "S.1125 also amends the act to require the Federal Crop Insurance Corporation, to the maximum extent feasible, to use private companies in administering the program. This will enable the Corporation to use the delivery system of private industry to market and service Federal all-risk crop insurance on a commission or contract basis. Private industry can bring a wealth of expertise and well-trained personnel to the expanded, nationwide crop insurance program.
>
> There are some 25,000 to 30,000 private crop insurance agents across the Nation who could sell and service crop insurance. The Federal Crop Insurance Corporation should use this valuable resource pool in implementing the crop insurance program under S.1125, rather than establishing a massive new Federal bureaucracy." (Cong. Record, Sept. 8, 1980, S12185)

Mr. Jones repeated Senator Huddleston's statement in explanation of the Report in the House. He also stated that the program would be made widely available. "It would be sold through county ASCS offices and by insurance agents and brokers. Private companies would be encouraged to write all-risk crop insurance. To achieve their participation, the Federal Crop Insurance Corporation would offer reinsurance services to qualified companies." (Cong. Record, Sept. 17, 1980, H9015)

We have gone into this detail in the legislative history of the 1980 amendments in order to demonstrate that the Act clearly contemplated that private insurance agents and brokers would be given the opportunity to sell Federal crop insurance policies to farmers throughout the country.

Nothing in this legislative history demonstrates any intent to authorize conversion of the program to solely a reinsurance operation. We recognize that the legislative history reflects the intention of the members to make the reinsurance program a reality and to promote sales of multiperil crop insurance through reinsuring private insurance companies, but it was also clear that this was not to be the only means of making use of the private trade in the sale of crop insurance. It was also intended as a requirement that Federal crop insurance policies be sold through private insurance agents and brokers, a requirement which is ignored in the notice of proposed rulemaking.

Apart from the legal considerations, the proposed rule is bad policy. This year is a year of crisis to farmers in the U.S. Many farmers are overleveraged in debt. One third of producers in the United States have a debt to asset ratio of 40 percent or greater. Net income is expected to decline this year to near all time low levels and most estimates for 1986 do not show any improvement. In fact, exports, which are the mainstay of American agriculture at the present, are projected to decline from a level of $38 billion in 1984 to a level of $34.5 billion for the current year and may even fall to lower levels according to reliable estimates.

To those farmers who can obtain financing to plant their crops it becomes more important than ever to have protection against natural disasters if they are to survive. The loss of a single crop due to a disaster often makes the farmer unable to repay his loan, leaving him with no credit to finance the next year's crop and may create enough havoc to drive him out of business. Crop insurance is not only beneficial to farmers, but also to lenders, since it serves as additional useful security for production loans made to producers, and to processor and seed companies which have an interest in the crop.

Despite the fact that the current program has been in effect for over four years, participation remains low. According to figures recently supplied the House Committee on Agriculture, the total acreage of thirteen major crops covered by both Federal crop insurance and multiperil crop insurance amounted to only 14 percent in the 1984 crop year, 12 percent in the 1983 crop year and 15 percent in the 1982 crop year. That is a dismal record that needs to be improved.

The FCIC has usually been over-enthusiastic in its projections of future business, but the optimistic projections have never materialized. In a G.A.O. report to Senator Eagleton dated July 13, 1984, the Comptroller General remarked as to the poor track record of estimates made by FCIC. He pointed out, for example, that the projection of business for the 1983 crop year was in excess of 30 percent of total acreage. The same comment as to the overly optimistic projections of producer participation was made in a Report of the ouse Committee on Appropriations, Report No. 97-800, dated Sept. 9, 1982.

In the face of the need to expand the program to as many producers as possible, the FCIC should be using every private delivery system available to sell all risk crop insurance and expand producer participation. The master marketing contract has proven itself as a viable successful delivery system. It should be encouraged.

For example, to maximize producer participation, it is necessary to extend coverage to high risk areas. The master marketers have had a better track record in this regard than the reinsured companies. In fact, there are many instances where reinsured companies have pulled out completely from high-risk areas. We are in receipt of communications dated March 1985 to customers of such companies stating that for the 1985 crop year certain of the reinsured companies would be providing no service whatever in Arkansas and Oklahoma and would not cover peanuts in the State of Texas. These are not isolated examples -- similar situations have obtained in the past with respect to crop coverage in Montana, citrus in Texas and elsewhere. In each of these areas, agents of master marketers have continued activily to solicit customers for federal crop insurance policies. If they were to be eliminated from the program, farmers in many high risk areas would not be served at all. This would be inconsistent with the intent of Congress in the 1980 amendments to make the crop insurance program fully available to farmers throughout the U.S.

Instead of encouraging the master marketers, FCIC has not given it equal treatment with the reinsured companies, and the master marketers have been the subject of predatory practices. Nonetheless, the master marketers have maintained a significant share of the crop insurance system, albeit, a lesser share than at the time of inauguration of the revised system.

According to the figures supplied by FCIC itself, the portion of the reinsured acreage for the 1984 crop actually covered by master marketing contracts was 41.4 percent. As of the past month, the insured acreage actually covered by master marketers for the 1985 crop is slightly less than 40 percent, although FCIC estimates that participation by master marketers is expected to fall to a lower level, somewhere between 20 and 30 percent. However, as indicated above, FCIC estimates of program participation has often been wrong in the past.

It is remarkable that the master marketers have thus far maintained as large a portion of the total business as they have, considering the handicaps against which they have been operating. To begin with, the method of paying commissions has encouraged many agents to change their affiliation to reinsured companies. For example, commissions are paid master marketers only when premiums are collected, except for an advance of 3 percent of the premium at the time of processing acreage reports. In the case of reinsured companies, the bulk of the commission is paid at the time of receipt of the acreage report. I understand that this is designed to represent an amount to reimburse the reinsured companies for overhead, administrative expenses, and a reserve. Nonetheless, this early advance enables the reinsured companies to pay significantly more in the way of commissions to its agents. Complaints have been received that the result is that agents of reinsured companies in many cases are being paid 4 and 5 percent more and perhaps even greater amounts than are being paid to the master marketing agents.

Further, without going into a recitation of familiar background material, there is a long history of complaints regarding the pirating of master marketing customers and other predatory practices to promote a transfer of business from master marketers to reinsurance companies. Some companies even claim that these changes are encouraged by FCIC. In a study by Marsteller, Inc. recently made of cases where producers purportedly had cancelled their Federal crop insurance policies, it was disclosed that as many as one-third of those interviewed on a random sample basis were not aware at all that their Federal policies had been cancelled and that they were covered by policies written by private insurance companies reinsured by FCIC. They were still of the belief that they were covered by FCIC policies. It has come to our attention that on March 22 of this year a new procedure is being followed with regard to complaints being received concerning these practices by reinsurers. Rather than FCIC itself investigate the complaints, the complaints are being forwarded to the reinsurer with the policy that when a response has been received from the reinsurer the response will be forwarded to the individual who made the inquiry.

Another reason for what we consider to be the imbalance in treatment is the fact that contracts covering additional commodities and areas are being offered exclusively to the reinsured companies, and master marketers are not given an equal opportunity to serve customers who wish to sign up. For example, it has been recently proposed that insurance be offered for the first time in Hawaii with the insurance being limited to reinsured companies. In addition, the crop insurance program was recently extended to cover cranberries, nursery stock, and cover extra long staple cotton produced in California and Arizona. In the first year of these programs, the program likewise was limited to reinsured companies.

In the past there have also been complaints with respect to confusion and delays by FCIC in the handling of applications and claims that were submitted by persons served by master marketers. We understand that there have been improvements in the operations of FCIC as a result of updating computer operations. But, in any event, the matters which have been the subject of controversy are the very kinds of things that could be handled by master marketers instead of FCIC on the same basis that they are currently handled by reinsured companies.

Naturally, if FCIC continues to press its campaign to shift entirely to reinsurance, more master marketing agents will discontinue selling crop insurance policies. But what is to be gained by this if it should occur? With the support of FCIC, master marketers can continue to maintain a credible share of the total crop insurance business and help expand its coverage to acreage not now benefiting from the program.

Finally, we seriously question whether the conversion would result in any cost savings to the Federal government and believe that the conversion may in fact be more expensive. The notice of proposed rulemaking provides little insight as to the justification of the proposal. It states that it may result in cost savings and that preliminary estimates suggest that initial savings may be in the $37-39 million range with long term savings of around $29 million. On calling the FCIC we learned that the budget office had not yet prepared any estimates and apparently there is an audit in progress by a task force, the results of which may not be known until June, possibly after a final decision is reached.

In any event, the estimates propounded by FCIC in its notice do not appear to be correct. According to figures prepared by FCIC in March 1982, the total cost of the master marketing system was less than the cost of reinsurance, after taking into consideration all administrative expenses incurred by FCIC. A report of the House Committee on Appropriations on the Agriculture Appropriations bill for FY 83, Report No. 97-800 at page 58 states:

> "Testimony before the Committee shows that the total cost in appropriated funds of the various options for delivery of the crop insurance program is least expensive for delivery by ASCS and FCIC employees, followed by delivery by full sales and service agreements. Delivery by master marketing agreements is more expensive, and delivery by reinsured companies is the most expensive option. Furthermore, the manager of the Corporation has testified before Congress that premium income from reinsurance operations for crop-year 1982 has amounted to only one-half of the level estimated last January in support of the budget request for fiscal year 1983. Therefore, the Committee intends that FCIC will encourage the sale of insurance through ASCS and FCIC employees, and through independent agents and brokers to the same extent as it has through reinsurance companies. Further, the Committee expects the Corporation to take all steps necessary, including public notice and the opportunity for comment, to ensure that its regulations and operating procedures do not manipulate the options for delivery of the program. The

Corporation is expected to give its primary attention to the protection of the financial and other interests of insured farmers. whose participation is essential for the success of the program."

To state it simply, FCIC must pay reinsurers for any administrative expenses that are assumed by the reinsurers. This does not come free. In fact, Section 508(e) of the Act provides "The Corporation shall also pay operating and administrative costs to insurers of policies on which the Corporation provides reinsurance to the same extent that such costs are covered by the Corporation on the Corporation's policies of insurance".

In addition, FCIC must continue to perform certain functins for reinsurers such as oversight and review and actuarial functions. Combined, these expenses were estimated in 1982, as indicated above, to be greater than the administrative costs incurred by FCIC in behalf of the master marketers.

There is little reason to expect that the situation has changed any since that time. In fact, one of the findings that was made by the House Government Operations Committee in a report dated, October 26, 1983, at page 3 was "FCIC pays the administrative expenses of reinsured companies without any study of what the payment level should be and does not conduct any analysis of the matter". In support of its position, it quoted a statement from the General Accounting Office. This statement was repeated in a report by the General Accounting Office to the Secretary of Agriculture dated March 14, 1984, at page 30. It stated that its review of sales and service activities of reinsured companies indicated that the FCIC rate for such services was higher than justified and also that the method FCIC used to establish compensation rates for claims adjustments activities could result in substantially higher costs to FCIC.

I doubt that the situation has changed much since these statements were made. We understand that the Finance Division of FCIC in Kansas City has stated that for the 1984 crop, the portion of the total crop insurance business handled by reinsured companies (approximately 60 percent) has caused about 65 percent of the total outlays incurred by FCIC for administrative and operating expenses. On the other hand, the balance of the crop insurance business handled by master marketers (about 40 percent) was at a cost of 35 percent of the total administrative and operating expenses incurred by FCIC. The cost to FCIC of reinsurance is probably increased further for the 1986 crop when considering the proposed reinsurance contract for 1986 which provides for reinsurers assigning the cost of high risk contracts to FCIC.

If as a program matter, the FCIC wishes to eliminate some of its functions, many could be assumed by master marketers, Why not negotiate with master marketers as FCIC did with the reinsurance companies recently at Hawaii. This opportunity has thus far been denied to the master marketers -- in our view, to the disadvantage of the FCIC program. The one function that obviously could not be assumed by master marketers is the underwriting of risk and possibly the guarantee of premium, but the master marketers are prepared to undertake to assume many of the other functions such as billing of premiums, processing crop insurance applications, acreage reports, and other papers, and the handling of loss adjustments with the same safeguards as are provided by reinsured companies. Why not afford this sector of the private trade, the same support that FCIC has accorded the reinsured companies? If this is done, sales of insurance policies should increase to the advantage of the system.

Conclusion

In summary, the proposed notice should be withdrawn. If it is intended for the crop insurance program to prosper and for coverage to be extended to more and more producers on greater and greater acreages, then the master marketers should be shown the same confidence and respect that has been accorded the reinsurers. Both sectors of the private trade should be used to the fullest extent possible, as required by the Act, to extend the benefits of crop insurance throughout the United States and fulfill the objectives set forth in the Act.

STATEMENT OF GEORGE VOHS

Senator COCHRAN. Mr. George Vohs, Crop Insurance Manager of United Agri Products Financial Services, from Greeley, CO. You may proceed.

Mr. VOHS. Thank you, Mr. Chairman.

As you said, my name is George Vohs, and I am the manager for crop insurance for United Agri Products Financial Services in Greeley, CO. My company is a subsidiary of ConAgra, Inc., of Omaha, NE.

My request to the committee respectfully is that the Federal Crop Insurance Corporation be directed to provide equal opportunity for Master Marketers to deliver crop insurance to the American farmer based upon their record of progress.

I am here representing UAP Financial Services, which has entered a contract with the Federal Crop Insurance Corporation, and this Federal group has served preliminary notice on my company that it no longer intends to honor its contract with us and with some 59 other companies who simply contracted with FCIC.

We are wholly engaged in agriculture and depend upon agriculture for our continued operations. Our company lends money to retail fertilizer and chemical dealers nationwide in an effort to assist them in remaining competitive in today's market and remaining in business in these troubled times when farmers are having difficulty in meeting their financial obligations. This, Mr. Chairman, is the basis for our interest in the Crop Insurance Program.

Our company entered a contract with the Federal Crop Insurance Corporation in 1984 to sell and service Federal Crop Insurance policies, primarily through our network of UAP companies who service some 10,000 and more retail chemical and fertilizer distributors located in 44 States. Sales by these people comprise about 25 percent of the market on a nationwide basis. We felt at the onset of our cooperation with FCIC, that we were ideally situated to assist FCIC in gaining its performance goals of 50 percent or more participation, for a number of reasons, namely:

Our dealers are located in all major farming areas of the country, including Hawaii, and are in an excellent position to know the farmers' needs for crop insurance protection;

Our dealers work hand-in-hand on almost a daily basis with our farm customers and are a trusted part of our operations;

The collateral support furnished farmers for financing short-term operating costs through the Federal Crop Insurance Program is important to the financial health of our system;

Most farmers are no longer in a position to absorb crop losses due to natural hazards in these critical economic times;

Our dealers can provide a valuable additional service in their farm communities by supporting the Crop Insurance Program and, at the same time, ingest added income through commission sales of the insurance.

Our progress has been excellent. Since July 1984, we have recruited and trained to FCIC standards nearly 400 agents situated in 34 States. These people are beginning to take ahold of the Federal Crop Insurance Program, a new venture for them. Our sale of new business through the spring sales period has been excellent. Our rapport with farmers, our understanding of their growing problems, and our participation in advancing them credit for the purchases of chemicals and fertilizers through the FCIC Program, have put vital emphasis into this venture. We will place our progress, in the short time we have been involved in crop insurance, against anybody's in the private sector, and we would expect this record to excel even more in the years to come.

But the Federal Crop Insurance Corporation, in its zeal to permit monopolistic control of the delivery of crop insurance, is trying to pull the rug out from under us.

As a part of the private sector, we feel we have acted in good faith. We have fulfilled and surpassed all of the terms of our contract with FCIC. In doing this, we have invested more than a quarter of a million dollars since July. We feel we will have to invest a like amount before we begin seeing commission returns on our investment. Not many companies have the fortitude or the wherewithal to enter the Federal Crop Insurance Program.

It seems to us that if FCIC is truly interested in increasing its program participation, that it would find ways to ease burdens on companies like ours not only in the financial arena, but in its rulemaking process. Instead, the FCIC has done everything in its power to foreclose our company out of the market. And we wonder why.

I have detailed in my statement, Mr. Chairman, a number of items or services that FCIC has eliminated since we began contracting. Our position is that we can deliver those same services without objection if we are properly compensated as our competition is compensated for that.

We know that our approach to crop insurance is not unique. We know there are many fine insurance companies and agents operating successfully in delivering this product. We like competition, and we are geared up to compete fairly in the free enterprise system. We know we can deliver Federal Crop Insurance sales at less cost to the Federal Government through our master marketing system, and we would like the opportunity to continue. Your cooperation and assistance will be appreciated.

If, in our opinion, the Federal dollars are to be spent wisely, then we feel the Federal Crop Insurance Corporation, through the funding process, should be directed to provide equal opportunity to all segments of the private sector.

Thank you, Mr. Chairman, for permitting me to testify. I will be glad to answer any questions.

Senator COCHRAN. Thank you, Mr. Vohs. I appreciate your being here this morning. I appreciate Mr. Jones and my friend, Robert, being here, too. It is good to see all of you. This is a program that is under, obviously, very critical review by the administration. Not only has the proposed rulemaking been published in the Federal Register, which you have discussed, but in the budget there are requests for phaseout of the premium subsidy as well as the operating subsidy for the Federal Crop Insurance Program.

This committee's jurisdiction relates only to the funding of the Federal Crop Insurance Program. We do not seek to write the rules under which the program is administered. That comes under the jurisdiction of the legislative committee.

So it is not likely that this committee is going to get in the business of trying to direct the Federal Crop Insurance Corporation in the administration of the program insofar as the details of its administration are concerned. That comes under the jurisdiction of another committee, but we are very much interested in your reaction to the proposal for the phaseout of the subsidy, since that is a decision that this committee will participate in.

I don't know whether you have the benefit of the administration's proposal on funding for this program or not, but let me just give you kind of an overview of it.

The proposal that we have before us, and that we will be taking up on Monday on the floor of the Senate, would gradually phase out both subsidies over a 5-year period. The current base subsidy at this time amounts to $173 million for operating subsidies and $188 million for premium subsidies, for a total allocation in Federal dollars of $361 million.

The phaseout, in effect, would bring those subsidy levels for 1986 down to $261 million; in 1987, to $191 million; 1988, $100 million; 1989, $57 million; and the program would zero out from an appropriations standpoint for subsidy in 1990.

These observations were made in the Budget Committee's report. "Given the level of maturity and financial stability achieved by the Federal Crop Insurance industry, this planned, gradual withdrawal of inappropriate rate schedules will not prevent expansion and growth of the needed private insurance service in U.S. agriculture. The likely premium increases would be modest. Current average rates of $4 per acre would not rise above $6 per acre before 1989."

I am interested in having the benefit of your reaction and your comments with respect to both the planned subsidy phaseout and the statements made in that report relating to the impact of the phaseout.

Mr. Bor. Mr. Chairman, it is a pleasure to be here before you today, and this is really my first exposure in private life to Members of the Congress. You may excuse me if I'm a little nervous.

Senator Cochran. That's all right.

Mr. Bor. I might say, I have a long memory when it comes to the Crop Insurance Program, and I recall a time when there was no subsidy provided in the Crop Insurance Program, and there was very, very little participation. Farmers in the United States who were afflicted with a disaster were receiving relief from a disaster payment program. It seemed wise to Congress back in 1980 to shift the type of protection from a disaster payment program, where payments were made to farmers who were unfortunate enough to be hit by a disaster, to a system where farmers would be contributing their own money to an insurance program.

So the law was changed, then, and we have gone on to the present insurance program with the idea that the Government is saving considerable money by having this kind of a program in lieu of a disaster payment program.

The farmers of the United States, I believe, would be ill-served by cutting out the premium subsidy—and I imagine this is also the view of the group—that if the premium subsidy were cut out that the members would be deluged by requests for relief by afflicted farmers in different parts of the country as they are suffering from the effects of disaster. We see today that farmers are in a credit crunch, that net farm income is at an all-time low, and to have to bear the brunt of a disaster on top of this is going to put many people out of business.

We don't believe that eliminating the premium subsidy will maintain the participation in the program. Obviously, premiums would have to be increased to take account of the elimination of the 30-percent subsidy. There is going to be a loss of interest in participation. I dare say that if there is to be protection afforded to farmers, if the protection is to be adequate, then the subsidy needs to be continued.

If I may also say another couple of words, that the dual delivery system is also necessary, because the current program, even with the subsidy, on the average, protects only about 14 to 19 percent of the acreage on the major crops that are being produced today.

With a continuation of the services of Master Marketers, this coverage should be increased. With the elimination of services of the Master Marketers and the conversion to a system where the only method of sales is through reinsured companies, it is our view that participation would be decreased and farmers in many areas would lose the benefit of protection.

We would say that we are in support of the dual delivery system to be continued and likewise for continuation of the premium subsidy.

Senator Cochran. I appreciate the comments that you have made. No doubt, this is a program that we have been trying to improve to the extent that it would attract participation, so we could get away from a disaster assistance program that had many uncertainties surrounding it.

It was subject to change at the whim of the Congress, and it was highly variable from one disaster to another. That is an unfortunate way to do business, I think. So Congress recognized that and, as you pointed out, developed this new, aggressive way to deliver crop insurance to farmers as an alternative to that disaster assistance program.

I supported it, along with many others, who are now serving here in the Senate.

This is going to be a tough decision. I don't know how it is going to come out. We hope to be able to help assure that the responsibility for sustaining deficit reduction is spread fairly and equitably throughout the Government. This is one thing that I think that nobody really likes to admit, and that is that every program and every activity is going to have to come under the most careful scrutiny to determine ways to reduce or restrain the growth of Government costs associated with it.

So because of that exercise, this is an area that has been identifed as one where there can be a cutback in Government expenditures.

Your testimony has been very helpful to us in understanding the practical consequences of action in this area, and I know it will be helpful to us as we review the entire budget that comes under this subcommittee. Are there other comments that either one of you would like to make in response to the question I asked?

Mr. VOHS. The only comment I would make is a personal comment from marketing crop insurance for 20 years and my experience. If you continue to eliminate the incentives for the farmer to buy the program—which the subsidy is an incentive—it is difficult enough now to market this program out there, as the participation figures show. There need to be incentives in marketing the program to convince the farmer to voluntarily protect himself. He has been somewhat dependent on other programs up to this point, and if we are going to convert him over to this cost-sharing concept, which I firmly believe is the right approach, then we need to continue some incentives in that until the conversion is complete.

Senator COCHRAN. One other observation that I should make at this point is that a part of the change in the budget that is proposed is the elimination of the disaster assistance program wherever crop insurance is available. So it is either crop insurance or nothing. That is the content of this proposal.

Would that be an incentive to a farmer? If he realized that, do you think he would believe it?

Mr. JONES. It is either an incentive or a threat, Mr. Chairman, I'm not sure which. As long as the program is maintained affordably to the farmer, then I believe it can work as an incentive.

Senator COCHRAN. But it is a threat if it is priced so high that even though there wouldn't be any disaster assistance program, he is not going to buy it?

Mr. JONES. Yes, sir.

Mr. VOHS. Mr. Chairman, I might also say in the sense of a disaster, a subsidized disaster program is a protection for Congress. That is, if you don't have people participating in the Crop Insurance Program and there is no other disaster program, and the farmers are hard hit by disasters in any section of the country, then obviously, they are going to come to Congress, and they are going to ask for help. Looking at the history of legislation, one might say that the chances are that some relief is going to be provided, because it is very hard to resist appeals from good managers and good farmers to help them out of a natural disaster, which is not attributable to any fault on their part. If you do have a subsidized Crop Insurance Program available, then it is easy to point to that and say that there is that protection.

Without a subsidized program and with high premiums, then the chances are that it will be very, very little participation, much lower than the 14 percent that we have today, and in the long run, it may well be that the expenditures by the national Government for disaster relief will be far in excess of what they would be under a subsidized program.

Senator COCHRAN. That is a very persuasive argument. Thank you both for being here. Thank you all for helping the committee in the way that you have.

Mr. VOHS. Thank you, Mr. Chairman.

Mr. JONES. Thank you.

[Mr. Vohs' prepared testimony follows:]

STATEMENT OF GEORGE F. VOHS

Mr. Chairman and distinguished members of this committee. My name is George F. Vohs. I am Manager for the Crop Insurance Division of United Agri Products Financial Services of Greeley, Colorado. My company is a subsidiary of ConAgra, Inc., of Omaha, Nebraska.

I am here representing UAP Financial Services which has entered a contract with the Federal Crop Insurance corporation (FCIC), an agency of the U.S. Department of Agriculture. This agency has served preliminary notice on my company that it no longer intends to honor its contract with us, and with some 59 other companies who similarly contract with FCIC.

We are wholly engaged in agriculture and depend upon agriculture for our continued operations. Our company lends money to retail fertilizer and chemical dealers nationwide in an effort to assist them in remaining competitive in today's market and remaining in business in these troubled times when farmers are having difficulty in meeting their financial obligations. This is the basis for our interest in the crop insurance program.

Our company entered a contract with the Federal Crop Insurance Corporation in 1984 to sell and service Federal Crop Insurance policies primarily through our network of UAP companies who service some 10,000 and more retail chemical and fertilizer distributors located in 44 states. Sales by these people comprise about 25 percent of the market on a nationwide basis. We felt, at the onset of our cooperation with FCIC, that we were ideally situated to assist FCIC in gaining its performance goals of 50 percent or more participation for a number of reasons, namely:

- Our dealers are located in all major farming areas of the country, including Hawaii, and are in an excellent position to know the farmers needs for crop insurance protection.

- Our dealers work hand-in-hand on almost a daily basis with their farm customers and are a trusted part of their operations.

- The collateral support furnished farmers for financing short-term operating costs through the Federal Crop Insurance program is important to the financial health of our system.

- Most farmers are no longer in a position to absorb crop losses due to natural hazards in these critical economic times.

- Our dealers can provide a valuable additional service in their farm communities by supporting the crop insurance program and, at the same time, ingest added income through commission sales of the insurance.

Our progress has been excellent. Since July of 1984 we have recruited and trained to FCIC standards nearly 400 agents situated in 34 states. These people are beginning to take ahold of the Federal Crop Insurance program, a new venture for them, and our sale of new business through the Spring sales period has been excellent. Our rapport with farmers, our understanding of their growing problems, and our participation in advancing them credit for the purchases of chemicals and fertilizers through the FCIC program, have put vital emphasis into this venture. We will place our progress, in the short time we have been involved in crop insurance, against anybody's in the private sector or the insurance industry, and we would expect this record to excel even more in the years to come.

But the Federal Crop Insurance Corporation, in its zeal to permit monopolistic control of the delivery of crop insurance, is trying to pull the rug out from under us!

At the time our company was approached by FCIC's Marketing Division in Kansas City to consider contracting for crop insurance delivery, the marketing policy of FCIC was to operate a competitve delivery between Master Marketers, like us, and insurance companies operating under an experimental program of reinsurance. The Master Marketing system consistently had been deliverying new business and was expanding participation in a systematic manner although not as fast as many had been led to believe was possible.

Surveys taken by the FCIC Marketing Division among private insurance agents showed little interest among most agents to spend the time, energy, and resources necessary to successfully market crop insurance. Many of these agents preferred to handle insurance lines whereby customers would walk into their offices and request coverage rather than to go out on-the-farm and sell crop insurance. Reports of these interviews are available from the FCIC Marketing Division in Kansas City, and I might add, they were presented to top FCIC management at the time. All-in-all, the Marketing Division was looking for companies who understood the farmer and who understand the necessity for taking the product directly to the farm.

Our company, UAP Financial Services, qualified on both counts and a contract was negotiated with Larry Bert, our president. This contract was signed in good faith and with the understanding of a long-term renewal provided marketing obligations were met.

As a part of the private sector, we feel we have acted in good faith. We have fulfilled and surpassed all of the terms of our contract with FCIC. In doing this, we have invested more than a quarter of a million dollars since July. We feel we will have to invest a like amount before we begin seeing commission returns on our investment. Not many companies have the fortitude or the wherewithal to enter this program.

It seems to us that if Federal Crop Insurance truly is interested in increasing its program participation, it would find ways to ease burdens on companies like ours not only in the financial arena, but in its rule making process. Instead, the FCIC has done everything in its power to foreclose our company out of the market. Why?

Let me briefly cite a history of our dealings with FCIC:

- In 1984, when we signed our first contract with FCIC, it pledged support in every possible way to get us started.

- In 1985, when we signed our second contract with FCIC, it began withdrawing its support.

    ...It eliminated training assistance for our new agents compared to the assistance provided the first year.

    ...It curtailed the use of FCIC field employees to assist our new agents in getting started in sales.

    ...It placed the burden of supplying FCIC materials required for sales on our company which resulted in printing bills in excess of $6,000 per month.

    ...It initiated new rule making which required us to provide additional training (beyond Agent Certification) for its new Actual Production History (APH) program which is a dismal failure in many parts of the country--ask any agent or farmer!

    ...It tightened requirements for agent licensing by state insurance commissions which is a farce in a program not regulated by the states. We have letters to date from more than 30 states indicating they have no authority to regulate FCIC programs.

    ...FCIC has discontinued meetings for Master Marketing companies which encouraged and permitted input into policymaking.

We would ask you to ask yourselves if these types of actions are the actions of an FCIC management that really wants to increase participation in its programs? Is this the type of cooperative actions that will be successful in gaining a 50% participation? Is this the type of management interested in seeing the Federal tax dollar used wisely?

We have been scratching our own heads over these actions and are somewhat puzzled by our reception in FCIC circles and the criticism we have recieved as a result of marketing the Federal Crop Insurance program.

We know our approach to crop insurance is not unique. We know there are many fine insurance companies and agents operating successfully in delivering this product. We like competition and we are geared up to compete fairly in the free enterprise system. We know we can deliver

Federal Crop Insurance sales at less cost to the Federal Government through our Master Marketing system and we would like the opportunity to continue.

Your cooperation and assistance will be appreciated. If the Federal dollars are to be spent wisely, then we feel the Federal Crop Insurance Corporation, through the funding process, should be directed to provide equal opportunity to all segments of the private sector.

Thank you.

NATIONAL ASSOCIATION OF STATE FORESTERS

STATEMENT OF BRUCE MILES, STATE FORESTER OF TEXAS AND PRESIDENT OF THE NATIONAL ASSOCIATION OF STATE FORESTERS

Senator COCHRAN. Our next witness this morning is Bruce Miles, who is the state forester of Texas and president of the National Association of State Foresters.

Mr. Miles, welcome to the committee. You may proceed.

Mr. MILES. Thank you, Mr. Chairman.

My name is Bruce Miles. I am state forester of Texas, and president of the National Association of State Foresters. The National Association of State Foresters is composed of the directors of the State forestry agencies of the 50 States and the three territories involved in State and private forest management throughout the United States.

Some 400 million acres of State and private forest are involved in commercial forest protection.

The State foresters appreciate the opportunity to meet before this committee and appreciate the committee's past support, both in the Forestry Incentives Program, which is administered through the ASCS office, and the Rural Community Fire Protection Program, which is administered through the Farmers Home Administration.

In fiscal year 1985, this committee appropriated $15.75 million for both the FIP Program and the Rural Community Fire Protection Program. In 1986, the administration eliminated all of these funds, and the National Association of State Foresters would like to go on record as recommending that the $15.75 million be appropriated. This is the level that we had in 1984 and 1985.

The Forestry Incentives Program is a cost-sharing incentive program to help tree farmers plant trees and do its essential work. It is aimed at one thing: Increasing timber production in this Nation. Since the program began, we have planted 2.6 million acres of trees at a cost of $111 million. This is about $42 per acre. Over 80,000 tree farmers have participated in the program. The program is so good, Mr. Chairman, that in my State, Texas, the forest industry has initiated its own program and volunteered, based on what it has seen and heard in the Federal program, and now assesses it at 5 cents a ton, generates over $60,000 a year for the Forestry Incentives Program to match what the Federal program has done. It has been a very effective program.

I also point out that we have now exceeded planting more trees in the FIP Program than we did during the Soil Bank days. Now, 20 years later when we have the major forest industry in my part of the State, based upon the Soil Bank Program that we had back in the late fifties and the early sixties, the economics have proven that that was a very effective tree planting program. With 58 percent of the forest in this Nation being private forest land, we think the Forestry Incentives Program is really an effective program, and we urge its support.

I would urge support of the Fire Protection Program administered through the FmHA. It allocates costs for volunteer fire departments throughout the Nation. We have over 1,500,000 volunteer firemen in the United States in over 30,000 departments. They are the most overworked, underpaid, poorly equipped people in the world and are doing a fantastic job in fire protection. Since the program started, we have been using excess military equipment, tanks, hoses, and other equipment. All this is designed to help those communities of less than 10,000 population. In my State, we had over 2,800 communities of less than 10,000 population, and half—1,400—of which, had absolutely no fire protection. Since the program started, we have been able to help 625 of those communities. We maintain a waiting list of other communities that want assistance through this program.

Fifty-six percent of the fires that these volunteer fire departments attack are either grass fires or forest fires, some sort of ground cover fire. We in the State forestry agency are well aware of the contributions these people made to forest fire control and suppression. We saw it on the national news in Montana last year when Montana had a similar amount of fire problem. We have seen it in Texas on a daily basis. We see it in Mississippi. We have seen it in Nevada, where 87 percent of the State of Nevada is owned by the Federal Government. Yet the Volunteer Fire Program, helped through this program, has done a fantastic job, and more recently, in the last 2 weeks, in the Carolinas and Alabama where we have a tremendous problem, and the Volunteer Fire Department Program has been a tremendous help to this program. It has been a very effective program, and we urge your support. Thank you, Mr. Chairman, and I would be glad to respond to your questions.

Senator COCHRAN. Thank you, Mr. Miles.

As you know, my State is one of those States where we have a large amount of land devoted to private forest ownership. The Forestry Incentives Program has been a very popular program in Mississippi. We never have enough money to go around, and there is always a long waiting list of those who would like to participate in the program but just simply cannot because of a shortage of funds.

In questioning administration officials who testified before this committee, I have always complained about the fact that the administration never requests any funding for this program. Their answer to me has been that there is evidence that this is a disincentive to reforestation and the planting of trees because people will wait until they get some indication that they are going to get some Government help to plant the trees and not do it on their own, whereas if there was no hope of Government subsidy for that, they would go on and do it, probably, in many instances. Therefore, it actually is a disincentive. What is your reaction to that?

Mr. MILES. Mr. Ohman and I have talked about this for some time. I can explain it to him, but I can't understand it for him. My best argument is when we stopped the Soil Bank Program in the early sixties, my State and several other States, but in my State particularly, we dropped 4,000 acres a year of planting, and that is all we planted, 3,000 or 4,000 acres per year. When the program started again in 1974, we immediately approached that, and we are now planting 25,000 to 35,000 acres a year. I think that is pretty indicative of other States. There are States which have people plant without the funding. But it is obvious that the funding has been a real help to tree planting throughout most of the South and the rest of the Nation.

Senator COCHRAN. I appreciate your observations on that and also, of course, your observations on the Fire Protection Program. I remember the year that the Rural Development Act was passed. I was a candidate for Congress, and I recall being very much interested in trying to help assure the full funding of that Rural Development Act, because many portions of it were designed to benefit States like mine, Mississippi, and they have been very important. This is one important activity of it.

As I said to earlier witnesses, a lot of what we can do this year with respect to funding is going to be determined by the outcome of the budget debate that begins next week. So what we are doing now is accumulating information and assessing the needs that exist out there. When we get through the budget process, we will be able, then, to get to our bill and to work our way through the programs and activities of the Department of Agriculture. I hope that we can see some funding for these programs. We will just see whether or not it is possible.

Mr. MILES. Thank you, sir.

Senator COCHRAN. Your being here has been a big help.

Mr. MILES. Thank you, sir. I would like to say that the State forestry has done an outstanding job, both nationally and in the State. I appreciate it.

[Mr. Miles' prepared statement follows:]

STATEMENT OF BRUCE MILES

Mr. Chairman and Members of the Committee, I am Bruce Miles, State Forester of Texas, and President of the National Association of State Foresters (NASF).

The NASF is composed of the directors of the state forestry agencies of each state. The primary responsibility of their agencies is to conduct forestry work for the public good on state and privately-owned forest land in their respective states. In cooperation with private, federal and other state agencies, organizations and individuals, the State Forester works to direct and strengthen all forestry programs within that state.

I represent the 50 State Foresters in the Nation. We appreciate past support by this Committee and the opportunity to appear and discuss the Forestry Incentives Program funded in the Agricultural Stabilization and Conservation Service budget, and Rural Community Fire Protection funded in the Farmers Home Administration budget.

Fiscal 1985 appropriations by this Committee for these programs totaled $15.75 million. For fiscal year 1986 the Administration proposed a zero budget for the Forestry Incentives Program, and a zero budget for Rural Community Fire Protection. We recommend an appropriation of $15.75 million for these two programs, which is the same amount as was appropriated for fiscal 1984 and fiscal 1985.

(MILLIONS)

	Appropriations		FY 1986 Administration Budget	FY 1986 NASF Request
	FY 1984	FY 1985		
Forestry Incentives Program (FIP)(ASCS)	$12.5	$12.5	- 0 -	$12.5
Rural Community Fire Protection (RCFP) (FmHA)	$ 3.25	$ 3.25	- 0 -	$ 3.25
TOTAL	$15.75	$15.75	- 0 -	$15.75

FORESTRY INCENTIVES PROGRAM (FIP)

The FIP Program is administered by ASCS in consultation with the Forest Service and is executed by State Foresters. It provides cost-share incentives to small landowners for planting new stands and for improvement of present stands. At current funding levels only a small percentage of the owners are being reached.

This highly successful program, a congressional initiative, is aimed at increasing timber production on private nonindustrial forest land to help meet the Nation's future needs for wood fiber. At present levels it will provide a substantial portion of the shortfall predicted to occur by 2030 if current levels of forest management are not improved. It is an important part of the total effort.

Since the FIP Program began, 2.6 million acres have been treated at a cost of $111 million. Nearly 80,000 landowners have participated. In FY 1984, 187,000 acres were treated at a cost of $8.9 million. Tree planting accomplishment remained approximately the same as FY 1983 with 145,000 acres treated. Timber stand improvement decreased from approximately 58,000 to 36,000 acres.

We urge you to consider the following statements in making your decision on fiscal year 1986 budget levels:

- o 58% of the commercial forest land in the United States is in nonindustrial private ownerships. This land today produces much of the softwood saw timber harvest annually and will need to produce more by 2030. Forestry is a long-term program and it makes little sense to neglect this vast resource. It offers more than 50% of the opportunity to increase productivity.

- Forestry is a long-term investment program facing many obstacles. Many landowners are harvesting their timber but are not making the necessary investments to reforest the area cut. High interest rates, long-term cash commitments and protection of plantation investments contribute to this impasse. Thus, millions of acres of highly productive land are being left idle.

- Reforestation, protection and management needs on the nonindustrial private forests are staggering. With an estimated backlog of millions of acres needing reforestation, it will take the combined efforts of industries, tax credits, incentives, technical assistance and cooperative programs to make a dent on the steadily increasing backlog.

- Past production of lumber and plywood came mainly from the Nation's private timberland. The bulk of the remaining old growth softwood timber now is found on the national forests in the West. One theory being advanced is that increased cutting of the old growth timber on the national forests would:

    1. Meet demands
    2. Provide increased revenues to the Treasury
    3. Provide the timber industry with a stable source of raw material
    4. Convert inefficient forests to efficient forests.

While this may solve some problems for the next 20-30 years, it completely ignores the long-term problems which start after the old growth is gone. The Forestry Incentives Program recognizes the need to put trees into the ground now and on a continuing basis.

- National forests annually provide approximately 20% of the total timber products; industry--30%; and nonindustrial private land--50%. This includes both softwood and hardwood production.

- Public Law 95-451 (the Packwood Bill) provides for tax credits and depreciation of amortized reforestation. However, this much-needed program will not affect the many small landowners who do not or may not have enough "up front" money to plant their land in trees, or perform other needed forestry work.

- Congress has recognized the urgent need to put trees into the ground to help meet the Nation's need for wood fiber for both domestic use and for export. The success of these programs will be demonstrated over time. In the meanwhile, proven measures like the Forestry Incentives Program should not be abandoned.

RURAL COMMUNITY FIRE PROTECTION (RCFP)

One of the greatest needs of rural America is fire protection for rural homes, farmsteads, factories and other improvements. Title IV of the Rural Development Act of 1972 authorized Rural Community Fire Protection on a pilot basis. Now it is authorized by the Cooperative Forestry Assistance Act of 1978 to provide financial and technical assistance to train, organize and equip local, rural fire departments.

The major emphasis of this program is to improve the existing levels of fire protection in rural areas where protection is lacking or nonexistent. Financial assistance is limited to not more than 50% of the actual expenditures. However, government help has amounted to less than 40% of the actual spending, while local fire departments have been supplying more than 60%. This is an indication of the success of the program in generating local fire resources.

The program is administered nationally by the Forest Service, though it is funded through the Farmers Home Administration (FmHA) under this Committee's jurisdiction. The Forest Service provides assistance to the State Forestry organizations which work with local fire departments. More than 90% of the funds are targeted to these departments. This is the only federal program specifically designed to provide technical and financial assistance in organizing, training and equipping fire departments in unincorporated rural areas. Requests for assistance exceed available funds by more than ten to one.

Coupled with the Federal Excess Property Program, RCFP has been able to provide thousands of excess vehicles for use in rural areas. In some cases RCFP funds provide a reconditioned vehicle and the community provides the fire pumper unit. In other cases the community provides the truck and RCFP funds provide the pumper unit. The program provides training to thousands of volunteer fire fighters in fighting small, structural fires and grass and brush fires.

According to the National Volunteer Fire Council, there are approximately 1,500,000 volunteer fire fighters in 30,000 or more fire departments providing fire protection to their local communities.

This is a very effective and successful program which is targeted at rural communities with less than 10,000 people. It not only provides additional fire protection, but provides a reservoir of trained volunteer fire fighters and equipment for fighting forest fires in critical times.

CONGRESSIONAL WITNESS

STATEMENT OF HON. J.J. PICKLE, U.S. REPRESENTATIVE FROM TEXAS

Senator COCHRAN. I know there are others who have been scheduled to testify next. I see that Congressman Jake Pickle from Texas is here. I know he is on a tight schedule. He is scheduled to testify at 10:30. I am going to ask you, Congressman, if you can, to come forward now and present your statement to the committee. It is always a pleasure to see you. You are one of my best friends in Washington. It is an honor to have you appear before the committee.

Welcome.

Mr. PICKLE. Thank you very kindly, Senator.

It is a great pleasure to see you again and to recall our days together in the House, where you served with such distinction. We always like to think of you as one of our honor graduates. It is a pleasure to be here with your committee.

May I submit my statement for the record, Senator, and summarize in this way?

I speak this morning on behalf of the Soil Conservation Service, primarily. Here is my main concern: Near San Marcos, TX, two of our little rivers, the San Marcos and the Blanco, converge at a point just below the city of San Marcos. Also, just west of San Marcos are two large tributaries which flow through the city on their way to reach that point where those two rivers converge. When there is heavy rain, flooding, those two rivers fill to the brim. They can't take any more water. When those tributaries try to come through the city of San Marcos to go to the river, they can't get to the river because they back up. They can't reach the water, so it backs up into the city.

This has happened on many occasions in the past, causing a great many millions of dollars' worth of damage, and loss of soil. The Soil Conservation Service is in the process of building some earthen dams just above the west of San Marcos. Last week I attended a ceremony where we celebrated the completion of a second dam, and then we completed the third dam, on behalf of the Soil Conservation Service. The whole project cost about $11.5 million, a tremendous investment for the great good that it does.

We are on schedule. We have hired the State engineer, Mr. B.A. Griffin, who was the Soil Conservation Director for Mississippi. He is now out of Temple and is helping us finish these dams. We are on schedule. We are doing good. In addition to controlling the flooding, it is a source of restoring water for the Edwards aquifer. That program is a very important program, very valuable and very helpful.

So I speak for that program and for the other services rendered and simply ask that you be as considerate as you can when you consider appropriations for the Soil Conservation Service. A 23-percent cut is recommended by the administration. It is just too much. It is not fair, it is not right. If you would want to freeze everything, I think many of us in the House would accept that, or if you want to make a reduction of 5 percent across the board, that would be fine. We could accept that. But a 23-percent cut in one of the few agencies helping rural America is simply not fair. I ask that you be as considerate as possible.

I know for a fact that great good will be done by building these dams which will help decrease the flooding in my district.

I attended a ceremony last week. They said upon completion of this third dam, the danger of flooding would be reduced by 70 percent. If that is so, it literally will save a city of some 30,000 people and protect that great school of Southwest Texas State University, from which President Lyndon Johnson graduated. We know it is doing great work. We hope you can be as considerate of the Soil Conservation Service as you can.

Senator COCHRAN. Congressman, I am delighted that you are here this morning to tell us of your strong feelings about this part of the budget of the Department of Agriculture. I am sympathetic. Our State has similar problems, and we see the good work of the Soil Conservation Service every day in trying to help protect valuable land and other resources from the ravages of flooding and erosion and the like. I am confident that this subcommittee is going to be very attentive to trying to determine the needed level of funding within the budget constraints that we are going to be faced with, and try to appropriate a level that will be sensitive to the needs that exist throughout the countryside.

You have been very eloquent this morning, as you always are, and it is a pleasure to see you and to hear you talk, and to have the benefit of your counsel and experience. I know it will be very helpful to our committee.

Senator Specter?

Mr. PICKLE. Thank you, Senator.

Senator SPECTER. No, thank you, Mr. Chairman. I have no questions. I would just like to join in thanking you for being with us and giving us the benefit of your thinking.

Mr. PICKLE. Thank you, Senator. Good to see you again, and good to see you, Senator Kasten.

Senator KASTEN. Good to see you.

Senator COCHRAN. Do you want to take advantage of this opportunity? You have got a Congressman on the witness stand. You don't normally get the chance. [Laughter.]

Senator KASTEN. And I know we don't usually get a Congressman on the same side. They are usually both over there. We don't have any questions, but we appreciate your coming. We appreciate your comments. Jake, we look forward to working with you.

Mr. PICKLE. Thank you.

[Mr. Pickle's prepared statement follows:]

STATEMENT OF CONGRESSMAN PICKLE

Mr. Chairman, distinguished members of this Subcommittee, thank you for the opportunity to appear before you today to testify on behalf of the Soil Conservation Service Watershed Program.

Many years ago, American pioneers began a journey west in the hopes of making a better life for themselves. Some of them made their way into the Hill Country of Texas, a scenic area which often steals the hearts and excites the minds of those seeing it for the first time. Although life, without the amenities of modern day living, was not easy and was often made even more difficult by the bands of Comanche Indians that roamed the area into the early 20th Century, the pioneers perservered.

When those first pioneers settled the Hill Country, they saw what appeared to be extremely fertile land. The Hill Country's new inhabitants had great hopes of a successful life of farming and ranching in their new found home. Those hills contained a secret, however, that no settler could have forseen. The topsoil in the Hill Country was extremely thin and given to erosion. Just inches under what appeared to be fertile land was hard limestone rock. The Limestone formations under those hills were formed from centuries of volcanic activity.

One Spring, a tremendous thunderstorm developed. It was the kind of a storm that is not uncommon for the Hill Country at least once every couple of years. It was the kind of storm that would deliver several inches of rain within a matter of minutes and then last for hours; the kind of storm that could easily wipe away the thin topsoil that had been made susceptible to erosion through plowing and grazing. The storm washed away the topsoil, and continued to build. In some places the rain came down even harder than others. It came down so fast that a virtual wall of water had been formed and it was quickly washing through the valleys of the Hill Country taking everything in its path with it or leaving it behind as wreckage. The damage was so immense and sudden that it caused some of the settlers to leave. Most stayed, however, because this was their new home.

The scene I just described comes from stories handed down through the years by the residents of the Hill Country, including its most famous resident, President Lyndon Johnson.

Even as our technology has improved and our ability to predict the weather has improved, citizens of the Hill Country, in Central Texas, have seen floods that unmercifully destroyed life and property. Due to the allure of living close to the scenic waterfront of a Texas creek or river and the inability of local planners to keep up with suburban growth, people have been killed and houses and businesses have been destroyed. The geographical makeup and location of the Hill Country make it very susceptible to flash flooding. This will be true no matter how advanced the meteoroligists become.

In response to this dangerous situation, I began, several years ago, working on the Upper San Marcos Watershed Project. Made possible under the Soil Conservaton Service program, this program has been very successful. Public Law 566 authorized the funds for a series of five dams, to be built in key locations, that would prevent the flooding problems faced by Central Texas residents through the years. Already two dams have been constructed and construction on the third dam began one week ago today. Only two dams remain to be built in order to complete the project.

With the completion of just the first two dams, many peoples' property was spared from destruction in a recent flood. With the completion of the entire project many more citizens will be spared the agony associated with the brutality of Hill Country flash floods. In addition, more of our farmers and ranchers will be able to plan for coming seasons with the knowledge that land in the flood zones will be safe year round.

When I began work on the Upper San Marcos Watershed Program, I was motivated by the need to save lives and property. Since then a new issue has developed that is equally as convincing an argument for finishing the project.

The Edwards Aquifer is an underground reservoir of water that is the sole source of drinking water for citizens of not only the Hill Country, but for five counties thoughout Central and South Texas. With the rapid expansion of population throughout the area, this groundwater resource is rapidly being depleted. It so happens that the dams being constructed through the Upper San Marcos Watershed Project are going to be instrumental in recharging the aquifer. Since the lakes being formed by the dams are located above areas where water recharge to the aquifer occurs, the aquifer is being replenished even during times when rain is scarce. This is a crucial occurrence if the groundwater resources for Central and South Texas are to be maintained. As a result, citizens of San Antonio, Austin and many smaller communities are benefitting from the existence of the dams.

I will close by pointing out, that while the Watershed program is of extreme importance to my Congressional District, there are many other communities across the nation benefitting from this program. The preservation of soil and water resources is an investment in the future of our nation, not just an expense to the taxpayers. When working on ways to reduce the deficit we, as a Congress, need to be mindful that there are programs that can be cut or reduced that will not harm our ability to prosper and grow strong. We should work to maintain those programs that were created, not as a response to a crisis in governmental management, but instead, for the betterment of our nation. The Soil Conservation Service Watershed Program should be maintained at least at the Fiscal Year 1985 level so that the many projects underway across the nation will not be abandoned in midstream.

It would be not only totally unfair, but also bad policy to cut the Soil Conservation Service by twenty-three percent as the Adminstration has proposed. I could support an across-the-board freeze or even an across-the-board reduction in federal spending. But if we are going to keep some programs and agencies at Fiscal Year 1985 levels and even give increases to some departments, as the Adminstration has also proposed, then I think it would be blatantly unfair and extremely bad policy to force a twenty-three percent cut on the Soil Conservation Service which is providing a vital service to our nation.

NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

STATEMENT OF ROBERT GENS, MANAGER

Senator COCHRAN. Our next witness is Robert Gens, head of the Richland Grant Telephone Cooperative, Inc. from Blue River, WI.

You may want to correct my pronunciation. The National Telephone Cooperative Association is represented by Mr. Gens today. We welcome you to the committee and ask you to proceed.

Mr. GENS. Thank you, Mr. Chairman.

I appreciate the opportunity of appearing and testifying today. I would submit my statement and just make a brief summary of our position.

I am manager of the Lavelle Telephone Cooperative and the Richland Telephone Cooperative, and I am also representing the National Telephone Cooperative Association. I appreciate the opportunity to be here, and I am asking for the subcommittee's continued support of the REA Program.

Our first concern, of course, is in the administration's position with regard to the REA programs. We feel that there is a point that should be made. First of all, we feel that there is a continued need for the programs. Some critics of the REA programs say that the job of the telephone program has been completed, and we feel this is not the case. There is 10 percent of rural households that do not have telephone service. There is 16 percent that do not have one-party service, and further, we feel there is a continued need for the program to make efficiency improvements, such as electronic switching and filled cable, which will give our systems much greater operating security and efficiencies with regard to the operation of our rural systems.

Another point that I would like to make is, some critics of the REA Program say that the job is done, the demand for REA money is down. I think there are two points that should be made here. First, there has been some restriction on general fund levels, and therefore, there are some systems which would like to apply for REA loans, but haven't been doing so because of general fund limitations.

The second point is that because of the uncertainty of deregulation, some capital expenditures have been delayed due to the uncertainty of toll revenues. I know this to be the case in our own system, for example.

The last point I would like to make concerns the proposal eliminating the REA engineering standards provision.

I believe there are eight REA engineers that administer engineering standards for the telephone program. According to the Association of Contractors, it is saving approximately $43 million annually by having a standard REA contract. We feel that this is a very good program, and I know specifically, for our own systems, that the REA engineering standards have been very, very helpful for the construction programs that our systems have.

That concludes my brief summary, Mr. Chairman.

Senator BURDICK [presiding]. I just have one question before I turn you over to the Senator from Wisconsin, who is with us this morning. I wasn't here when you began your testimony. What are your numbers, your recommendations for fiscal year 1986? How are they in comparison to fiscal year 1985?

Mr. GENS. We would ask for a continuation of the present funding level. In other words, a freeze on the system.

Senator BURDICK. The Senator from Wisconsin?

Senator KASTEN. Thank you.

I would like, Mr. Chairman, to make a brief statement first. I think that the lending programs of the Rural Electrification Administration have added much to the prosperity of rural America, and I believe they should continue. I do not accept the administration's proposal to phase out the REA. I believe that this would have a devastating impact on rural electric and especially rural telephone rates in the Nation generally, and especially in largely rural States like Wisconsin.

No Federal program can be exempt from scrutiny as Congress seeks ways to reduce the deficit, and I'm not sure that the cost of REA loans to the rural electric and telephone co-ops shouldn't go up. But eliminating the REA money for programs at this time, a time of financial stress in much of rural America, would do more harm than good.

Mr. Gens, I welcome you here today. I would like to briefly get an idea of what you think the administration's proposals for REA would mean for rural telephone rates in our State of Wisconsin. What do you think would happen if Congress approved these proposals?

Mr. GENS. I believe our subscriber rates for REA today are in the neighborhood of some exchanges, due to calling area, some are a little bit lower, and some are a little bit higher, depending upon the free calling area or DAS, but our average is around $10 a month.

If we were looking at interest rates in the 14 interest rate areas, we would probably be looking at $18 to $29 a month. Let's bear in mind that that is based on what we know today, but has no bearing on what is going to happen with continuation of deregulation, the access charges, and so forth. This figure could well be higher than that. But I would say in the neighborhood of $18 to $29 a month.

Senator KASTEN. Mr. Gens, I thank you for your testimony here, and I can assure you that a number of members of this subcommittee on both sides of the aisle are anxious to work with you, because we feel strongly that the rural electric and especially the rural telephone system is something that has worked and worked well, and "if it's not broke, don't fix it."

We are looking forward to working with you.

Thank you, Mr. Chairman.

Senator BURDICK. And thank you.

Mr. GENS. Thank you very much.

[Mr. Gens' prepared statement follows:]

STATEMENT OF ROBERT GENS

Mr. Chairman, members of the subcommittee, good afternoon. My name is Robert Gens, and I am the manager of LaValle Telephone Cooperative and Richland Grant Telephone Cooperative, Inc., in southwestern Wisconsin. Today, I am also testifying on behalf of the National Telephone Cooperative Association (NTCA). NTCA is a national trade association made up of 450 locally owned and operated small telephone systems in over 40 states. I am pleased to have this opportunity to discuss legislative proposals that are of great importance to NTCA's members.

Mr. Chairman, today I would like to address two key issues: first, the legislative proposals in President Reagan's budget message to Congress; and second, administrative practices at the Rural Electrification Administration (REA) that could undermine the effective operation of REA programs.

As the subcommittee members know, proposals in the President's budget message to Congress threaten the very existence of REA. The Administration's FY 1986 proposal drastically cuts some of the telephone loan programs and eliminates the $30 million capitalization for the Rural Telephone Bank (RTB). The proposal also raises interest rates in the REA insured loan program to the rate that Treasury pays for comparable securities plus a user fee of one and one-eighth percent. Furthermore, the Administration proposes to phase out all REA and Rural Telephone Bank lending by the end of FY 1989.

COMPARISON OF FY 1985 AND PROPOSED FY 1986
REA AND RTB TELEPHONE LOAN PROGRAMS

	FY 1985 Authorized	FY 1986 Proposed
Insured Loans	$250-325 million	$ 75 million
Loan Guarantees	$125-145 million	- 0 -
RTB Loans	$185-220 million	$185 million
RTB Capitalization	$ 30 million	- 0 -

Mr. Chairman, put simply, these proposals spell disaster for rural telephone systems and their consumers. If interest rates increase by 8 percentage points as proposed, most telephone borrowers would be unable to afford to use REA money. We can reasonably predict the impact of this proposal on REA borrowers because even today, eligible telephone borrowers that can afford higher interest rates than those in the insured loan program receive some or all of their loans from the Rural Telephone Bank. Few REA borrowers qualify under the statutory criteria for loans solely from the RTB even though the RTB's qualification standards tend to be lower than those of non-government lenders. If most REA telephone borrowers cannot afford the RTB's rate, which is currently 9.5 percent, they certainly cannot afford the 13 percent rate suggested by the Administration. Because REA borrowers' net worth ratios remain low and because providing telephone service to rural consumers remains costly, due to the extremely low population density, today's REA borrowers will not likely be able to finance needed construction in the future without REA.

NTCA is well aware of REA's critics who say that REA is no longer needed because an estimated 96 percent of farms have telephone service. However, the following facts should not be overlooked:

1) While the percentage of non-metropolitan households without access to a telephone is down to about 12 percent, more than 3 million people still lack access to service in these areas.

2) REA financing is used for more than new service. Sixteen percent of consumers served by REA borrowers are still on party lines, and more than over 13 percent are on 4-, 5- or 8-party lines -- difficult facts to accept in what is supposed to be the information age. Without REA, what lender will find it feasible to finance upgrading these party lines?

3) REA loans are used for improvements needed to achieve operating efficiencies. For example, more than 20 years ago, the telephone industry recognized that using buried cable instead of aerial wire or cable reduces the threat of storm and other weather damage. Many telephone systems replaced their existing, aging aerial plant with the new buried cable. Today's highly water-resistant buried cable is even more advanced. However, about 16 percent of REA's total investment in wire and cable is in aerial cable, and approximately 260,000 miles of aerial plant will have to be replaced.

4) Digital switches offer tremendous operating efficiencies. They can regularly monitor the technical quality of the telephone system and detect problems even before the customer is aware of them. In future years, 5,000 or more of the older electromechanical switches will need to be replaced.

REA's critics contend that additional REA telephone loan funds are not needed because the demand for them was lower during FY 1984 than in prior years. However, by the end of the fiscal year, REA still had about $500 million in backlogged telephone loan applications! The reduced demand last year is attributable to two factors:

1) REA's administrative restrictions. REA borrowers have needs that the agency no longer finances. For example, REA no longer finances the construction of headquarters buildings. Moreover, REA restricts the level of general funds that a borrower may have before that borrower can draw down an existing REA loan or apply for a new one. The borrowers need the money, but these and other restrictions have begun to choke off applications.

2) Regulatory uncertainty during 1984. The Federal Communications Commission did not finalize its access charge decision until December 17, 1984 . This decision had a great impact on the amount and source of revenues for local telephone companies. Because of the regulatory uncertainty many rural telcos were cautious about embarking even on much-needed construction.

Critics of the REA program state that other sources of financing are available for REA borrowers. However, REA's own statistics demonstrate that the average net asset ratios of REA borrowers lag far behind those considered acceptable to nongovernment lenders. REA's reluctance to grant timely accommodations of its lien on borrower property further discourages nongovernment lenders.

In addition to these administrative burdens, REA's vitality is threatened by proposals to consolidate budgeting and other functions of several USDA entities and by a proposal to eliminate the Engineering Standards Division.

The REA Telecommunications Engineering Standards Division is small, including only eight professional engineers. However, its work volume and its role in the telecommunications industry are tremendous. REA engineers set the standards and develop specifications for the telecommunications equipment that may be financed with REA loan funds. The engineers work with borrowers, consultants, and manufacturers to solve special problems of rural telephone service. REA's engineers developed extremely important technology now in use not only by REA borrowers but also by telephone service providers across the country and around the world. These technological contributions include electronic loop extenders, direct buried telephone cable, subscriber carrier systems, and dial mobile radio systems for unattended central offices.

The Power and Communication Contractors Association estimates that in one year alone, REA's standardized contracts and specifications saved $133 million on rural telephone and electric construction projects. To lose these cost efficiencies by eliminating the REA Engineering and Standards Division will increase the cost of REA-financed construction and require use of more loan funds, resulting in higher interest costs for both the government and the borrower and higher subscriber telephone bills.

Eliminating this division for the sake of saving eight staff years makes no sense. The government and the taxpayers are getting more than their money's worth from these engineers. The damage to rural telephony would be great. REA's engineers are strong advocates for rural telephone systems in the complex and fast-moving field of telecommunications technology. Even companies that historically have developed telephone technologies have used REA-generated designs for their rural territories.

I understand that the proposal to eliminate this division is still under consideration. Rather than continue at REA under these precarious circumstances, three telecommunications engineers have already left REA. These positions have not yet been filled. It seems the Administration is determined -- by legislation, administrative fiat, or attrition -- to cut back on REA and its ability to serve rural America.

Mr. Chairman, I appreciate the chance to speak on behalf of NTCA's members on these issues of great concern to all rural citizens. NTCA urges the subcommittee to continue its vigorous oversight of administrative actions that threaten this important program.

Thank you.

AMERICAN ASSOCIATION OF CROP INSURERS

STATEMENT OF JOHN JOYCE, CHAIRMAN

ACCOMPANIED BY MIKE McLEOD, LEGAL COUNSEL

Senator BURDICK. Our next witness will be Mr. John Joyce, chairman of the American Association of Crop Insurers.

Mr. JOYCE. Good morning, Senator.

Senator BURDICK. Good morning, gentlemen.

Mr. JOYCE. With me this morning is Mike McCleod who is our legal counsel for the American Association of Crop Insurers. It is indeed our honor to present testimony before this subcommittee. I come before you to talk about the Multiple Peril Crop Insurance Program and the administration's request for funds for the Federal Crop Insurance Corporation for fiscal year 1986.

The American Association of Crop Insurers was organized in 1980 by private insurance industry leaders who believed it to be in the best interest of American agriculture to institute a Multiple Peril Crop Insurance Program as a replacement for ad hoc low yield disaster payment programs. We believe the farmers are best served by a crop insurance production plan sold and serviced by local agents. That provides the needed financial protection for growing their crops and which provides each individual grower the flexibility to purchase protection against risk or hazard that pose a threat to their operation.

In 1980, Congress enacted the comprehensive crop insurance law with the support of the private insurance industry, farm commodity groups and farm organizations, all of whom desired to end the disaster payment programs and at the same time make affordable insurance protection available so farmers could protect their business.

The act of 1980 included four essential elements for a successful program. No. 1, the Congress' intent to use to the maximum extent practicable the private insurance industry; No. 2, it offered a premium subsidy of up to 30 percent in an effort to defray the cost to the farmer; No. 3, it brought out a reinsurance agreement to the insurers; and No. 4, it eliminated the costly and inequitable low yield program.

The MPCI Program, when coupled with the private crop hail insurance, has proved to be a safety net for the Nation's farmers. Our estimates show that in 1984, over $22 billion of combined protection was provided to the American farmer, while between 35 and 40 percent of the acreage was insured.

We believe the Crop Insurance Program is working and feel strongly that private industry can continue to fulfill its commitment to provide the best possible service to our farmers. The manager of FCIC, Mr. Merritt Sprague, recently appeared before your subcommittee and submitted budget proposals under two plans, the proposed legislation and existing law.

Under proposed legislation, requested funds are $164,257,000 for administrative and operating expenses and $92,048,000 for the farmers' premium subsidy.

Our association is very concerned over the proposed elimination of the premium subsidy. We do not believe it to be in the best interest of the farmers or the farm economy to propose this at this time.

U.S. policy considerations must include a cost-effective safety net for production agriculture. The Crop Insurance Program provides this safety net and has often saved the farmer from complete bankruptcy. Because of the economic crisis coupled with the below-average yields on many farms, the Crop Insurance Program is affordable only because of the Government premium and administrative subsidies. Removal of the subsidy, in total or in part, would price insurance protection out of reach to many highly leveraged farmers at a time when demand for credit and protection for cash flow is weak. We can refer to it as the most needed.

A quick analysis of the figures would indicate that the average premium cost per acre across the United States—and it is highly variable from area to area—would come out to approximately $10 per acre. If, indeed, you are to remove the subsidy from this program and at the same time move to make it an actuarily sound rate, some of the areas which could be most affected—for example, the State of North Dakota—would increase the rates approximately two and one-half to three times; in the State of Mississippi, nearly five times.

We believe that not only is this not the proper time to place this additional burden on our farmers, but we believe that if we keep searching, we can find other solutions other than absolutely raising the rates.

We believe that other avenues are available to cut the cost of this program. Therefore, we were pleased when FCIC published in the Federal Register that the Department is considering phasing out our delivery of this program through direct FCIC writings. As part of the record, I would like to submit with my statement a copy of our official comments on this proposal which we believe have a strong legal base in the 1980 Crop Insurance Act.

[The information appears following the testimony of Mr. Joyce and Mr. McLeod.]

The continuing objectives of FCIC management in implementing the MPCI Program are: Improving the crop insurance policyholders and utilizing taxpayers' dollars more efficiently and effectively. In view of these objectives, the FCIC management's proposal to terminate FCIC direct insurance operations as quickly as possible is applauded by our association.

The FCIC estimates that conversion of FCIC from a direct writer of insurance strictly to a reinsurer will result in an estimated savings of $37 to $39 million. This would mean that there is an average of $300 per policy to be saved by the elimination of the master marketing system. This could be done with very little displacement of personnel or any burden on our existing farmers or any impact on service.

We are indeed supportive of the administrative budget request under existing legislation. These funds, $239,234,000 for administrative and operating expenses and $135,000,000 for premium subsidy will enable the private industry to continue expansion of the program while at the same time providing the farmer with the extra funds he needs to obtain protection at a time when the credit crunch makes cash flow the primary need of U.S. agriculture. Private industry has proven its ability to deliver this product to the American farmer and will continue to do so as it delivers to the best of the agriculture insurance needs of the United States.

Again, Mr. Chairman, we appreciate the opportunity to testify in support of this vital program and compliment you and the committee for focusing on the key crop insurance issue of providing the necessary funding to make the program affordable to the American farmer.

Thank you.

Senator BURDICK. Thank you.

Yesterday, one of the witnesses testified that there were two areas where private insurance was written and just ceased to be written, and there was nobody in their area to write this insurance. What would happen if it went back to private industry completely, and what would be the obligation of the insurance company to write?

Mr. JOYCE. Under the reinsurance agreement being proposed by FCIC, which would take effect with the 1986 crop, there is a requirement that private industry make crop insurance available to all eligible farmers for crops produced.

Senator BURDICK. The private insurance company has a right to be in business or not be in business. Suppose they decided in this particular area where there is a high incidence of hail or something just to stay out? How would that farmer get coverage?

Mr. JOYCE. Again, I would refer to the contract, but there does not seem to be any shortage of companies providing this coverage. I do not know of any area now where there is not access to a company or to an agent. Remember, this is a highly competitive business and if one company does not write, another one will.

Senator BURDICK. I believe testimony shows that it was in Texas, or maybe it was in Oklahoma where there was no coverage.

Mr. JOYCE. Sir, to my knowledge, my company, National Farmers Union, does business in both States. I would be surprised if there was not a local agent available.

Senator BURDICK. I felt the same way you did, and I was quite shocked to hear that.

Mr. JOYCE. We would certainly be happy to check further, Senator, if you will provide me with the specifics.

Senator BURDICK. I wish you would.

Mr. JOYCE. OK.

Senator BURDICK. How many farmers now pressed for economic reasons would just abandon insurance if you didn't have the subsidy? Do you have any number or a horseback guess?

Mr. JOYCE. We really do not know. Because the financial pressures that these people face are different, however, I would simply say that a large number of people would have to reassess the amount of protection which they could take, the actual cash protection that they would have per acre.

I am sure it would have an impact. It would have an impact on the new people who are now coming into this program. We have estimated anywhere from 20 to 50 percent; however, there is no way to really be certain, because we don't know what the economic pressures are on each particular farmer.

Senator BURDICK. You know when you are under pressure you put out a little less fertilizer and you cut corners here and you cut corners there. I was just wondering, would this be a wild guess as to what percentage just might pass up insurance?

Mr. JOYCE. You are absolutely correct, Senator, as to how many are passing up insurance today because of the financial demands. They simply are saying they are going to take the least possible input of costs to produce that crop and take their chances.

Senator BURDICK. I will now yield to the great Senator from the State of Tennessee.

Senator SASSER. Thank you, Mr. Chairman.

I was just noting here your concern on the administration's plan to phase out the administrative expenses in the farmers' premium subsidy over the next 5 years. You say you believe the crop insurance subsidy should remain in effect for a few more years in order to complete the orderly transition in the Government ad hoc disaster aid program to full implementation of this program on a cost-sharing basis. How many additional years do you think it should remain Federal?

Mr. JOYCE. Senator, we do not know, for the simple reason that I have not read—and maybe you have—of any analysis which tells us when our farm credit problems or our farm economic problems may reverse. That is our biggest concern at the moment. We simply must not add to the burden of these people.

Senator SASSER. Did I understand you to respond to the chairman that as many as 50 percent of the farmers would drop crop insurance if the premium subsidies were abandoned?

Mr. JOYCE. I am saying that is a guess.

Senator SASSER. I thought that was a guess. I am asking you as a point of clarification, I thought you said 50 percent. Did I misunderstand you?

Mr. JOYCE. I am saying a guess is between 20 and 50 percent. No one knows for certain what the economic impact would be, sir.

Mr. MCLEOD. Senator, if I might add to that point, our own calculations show that in your own State of Tennessee, for example, if we completely eliminate the subsidy, and if we increase the premium enough to make the program actuarily sound, that the rate could increase by four times in the State of Tennessee.

Senator Sasser. You mean I would have a 400-percent increase in premiums in the State of Tennessee?

Mr. MCLEOD. That is correct.

Senator SASSER. You would lose more than 50 percent of the farmers, then, with a 400-percent increase in the premiums.

Mr. JOYCE. Sir, we are coupled with two problems; the economic problem, but also, as you are well aware, we went through a series of years where we have had unusually low production histories in most of our commodities, at least in large areas of this country. That has also impacted the low ratio in the amount of money paid out. That is part of the calculation which would come into this.

Senator SASSER. You don't have any data there that would indicate the average premium paid for crop insurance in the State of Tennessee, do you, under the present law?

Mr. MCLEOD. We can get that for you, Senator. Nationwide, we estimate it is about $10 an acre for crop insurance premiums.

Senator SASSER. Thank you very much. Thank you, Mr. Chairman.

Senator BURDICK. Thank you.

[Mr. Joyce's prepared statement and other material to be supplied for the record follow:]

STATEMENT OF JOHN JOYCE

Mr. Chairman: As Chairman of the American Association of Crop Insurers, it is indeed an honor for me to present testimony today before your distinguished Subcommittee. I come before you today to talk about the Multiple Peril Crop Insurance Program and the Administration's request for funds for the Federal Crop Insurance Corporation for fiscal year 1986.

The American Association of Crop Insurers (AACI) was organized in 1980 by private insurance industry leaders who believed it to be in the best interest of American Agriculture to institute a Multiple Peril Crop Insurance ("MPCI") Program as a replacement for the government's traditional ad-hoc low yield disaster payment program.

"Promoting Agriculture Through Crop Insurance Using the American Agency System" is the slogan and the heart beat of AACI. We believe that farmers are best served by a crop insurance protection plan that provides the needed financial protection for their growing crops and which provides each individual grower the flexibility to purchase protection against risks or hazards that pose a threat to his operation. AACI further believes that the farmer's insurance needs are best served by protection from the Risk-Bearing private companies that provide protection for the rest of the farm business.

AACI is a non-profit trade association whose membership is made up of private companies that write crop insurance. Member companies of AACI write the vast majority of the Government reinsured MPCI and are the major writers of private Crop Hail and Fire protection for farmers. AACI also represents general concerns of agents and adjusters who participate in AACI through our affiliate membership program.

Mr. Chairman, the crop insurance program had a rocky existence for many years, beginning in the late 1930s when the Federal Government tried its hand at offering an MPCI program under authority of a crop insurance law. The administrative costs of the program were paid from the general treasury, thereby subsidizing the premium rate by about 35%. The program was organized and funded as a government corporation. By the end of the 1945 crop year, the government corporation was bankrupt. The government program was restructured on a limited experimental basis beginning in 1948. For the period of 1948 through 1980, the government program remained unsuccessful in obtaining high rates of farmer participation and fell short of targets for collecting adequate premiums.

The private sector also tried its hand in Multiple Peril Crop Insurance during the 1950's with a few companies beginning a limited experiment in writing MPCI protection. Most of these programs were run in conjunction with the crop hail programs that the private insurers offered. Unfortunately, the programs experienced only limited success. Additional attempts were made by private companies in the early and mid-1970's. However, heavy losses in the mid-1970's virtually ended the private sector MPCI experiment. The bad loss experience was compounded by: (1) the coverage being based on the Agricultural Stabilization and Conservation Service program yield, which did not accurately reflect actual yield history of individual farmers; (2) inadequate risk dispersion and rating which was caused primarily by having to compete with the government-subsized crop insurance program, and (3) lack of catastrophic reinsurance protection at affordable prices, to protect against disasters occurring over large geographic areas. As a result, private sector MPCI programs were phased out and private insurers offered only crop hail and fire insurance.

In 1980, Congress enacted a comprehensive crop insurance law with the support of the private insurance industry, farm commodity groups and farm organizations, all of whom desired to end costly ad-hoc disaster payment programs and at the same time make affordable insurance protection available so farmers could protect their business just as the main street merchant can protect his business. The Act of 1980 was far reaching and provided a vehicle for all agricultural producers to have affordable protection available through private companies backed by government catastrophic reinsurance. The Act of 1980 included four elements necessary for a successful MPCI program: (1) it established Congress' intent to use to the maximum extent practicable the private insurance industry to deliver the MPCI program; (2) it authorized a premium subsidy of up to 30 percent in an effort to defray the cost to the farmer; (3) it included a program of catastrophic reinsurance for "risk bearing" private companies writing and servicing their own policy for farmers and (4) it eliminated the government's costly and inequitable low yield disaster payment programs. It was through this blending of responsibilities that resulted in affordable protection becoming available to the nation's farmers.

The MPCI program, when coupled with the private crop hail insurance program has proven to be the safety net to many of our farmers. Its acceptance as a risk management tool is growing each day. Our estimates show that in 1984 over $22 billion of combined protection (crop hail and MPCI) was utilized by American farmers, or between 35 and 40% of the acreage was insured.

We believe the crop insurance program is working and feel strongly that private industry can continue to fulfill its commitment to provide the best possible service to our farmers.

There have been growing pains from the aggressive expansion of the crop insurance program. However, in just four short years (1981 through 1984 crop years) much has been accomplished.

Acreage eligible for protection is up from about 220 million to about 330 million acres. This represents over 90% of the principal crop acreage in the U.S.

The number of crop insurance county programs have increased dramatically. In 1980, only about 4,651 county programs were in force. By 1984 this increased to about 18,000 county programs. This is in sharp contrast to the traditional USDA approach of providing low yield protection to the growers of only about six major crops on national basis.

The number of growers eligible for protection has greatly increased from the old FCIC pilot program.

Virtually all farmers nationwide are now eligible for protection on the crops of: almonds, barley, corn, cotton, flax, grain sorghum, oats, peanuts, raisins, rice, rye, soybeans, sugar beets, sugar cane, sunflowers, tobacco, wheat.

Most growers in major production areas can insure the crops of: citrus, cranberries, dry beans, grapes, peas, potatoes, sweet corn, tomatoes.

Many growers can purchase protection under current pilot insurance programs for the crops of: apples, citrus trees, forage seeding, peaches, peppers, prevented planting.

Mr. Chairman, the manager of FCIC, Merritt Sprague, recently appeared before your Subcommittee and submitted budget proposals under two plans: (1) proposed legislation and (2) existing law. I would like to address both of these proposals.

First, under proposed legislation (which has not yet been made available) the Administration plans to phase out administrative expenses and the farmer's premium subsidy over the next five years. The requested funds under this proposed legislation are $164,257,000 for administrative and operating expenses and $92,048,000 for the farmers' premium subsidy.

Our Association is very concerned over the proposed elimination of the premium subsidy. We do not believe it in the best interest of the farmers or the farm economy to propose this at this time. U.S. policy considerations must include a cost effective safety net for production agriculture. The crop insurance program provides this safety net and has often saved a farmer from complete bankruptcy. However, because of the economic crisis on many farms, the crop insurance program is affordable only because of the government premium and administrative subsidies. Removal of the subsidy, in total or in part, could price insurance protection out of reach to many highly leveraged farmers, while severely crippling the program.

We believe the crop insurance subsidy should remain in effect for a few more years in order to complete the orderly transition from the government ad-hoc disaster aid program to full implementation of this program on a cost sharing basis. Premature removal of the subsidy could cause the entire transition to abort and place the government in the position of once again making costly direct disaster payments. After the transition is complete, and the program more actuarily sound, it may be possible to completely eliminate this subsidy.

Mr. Chairman, the American Association of Crop Insurers believes that there are other avenues available to cut the cost of this program, therefore we were pleased when FCIC published in the Federal Register that the Department is considering phasing out delivery of this program through direct FCIC writings. We wholeheartedly support this move toward delivery through reinsured companies.

As part of the record, I would like to submit with my statement a copy of our official comments on this proposal.

It is the belief of the members of AACI that the MPCI program will be most effectively and efficiently delivered to the agricultural sector via the reinsured private companies. The cooperative effort of FCIC and the private sector to develop an efficient delivery system which includes both good service to the farmers and cost effectiveness to the government has resulted in reinsured companies writing up to 80% of the estimated business in 1985.

The continuing objectives of FCIC management in implementing the MPCI program are: (1) Improving service to crop insurance policyholders; and (2) utilizing taxpayer dollars more efficiently and effectively. In view of these objectives, it is prudent for FCIC management to terminate FCIC direct insurance operations as quickly as possible and allow the reinsured companies to carry on the activity for which they are best suited -- delivering the MPCI program at its lowest cost to the farmer and taxpayer AND providing the service necessary to make the program a success.

Mr. Chairman, we believe the most appropriate date for phasing out the FCIC direct insurance operation is October 1, 1985.

AACI believes that FCIC can be transformed from a direct insurance operation to strictly a reinsurance operation without loss of any capacity and without any extensive hardship on individuals and organizations that serve the nation's farmers.

Since the Act of 1980 implemented the reinsurance program, premium income on reinsured paper has increased dramatically. Since 1981, the premium income on reinsured paper (policies issued by private companies) has increased from $12.8 million to an estimated $378 million for crop year 1985. This is an increase of 2,900%. During the same time period, the share of business written by reinsured companies compared with the FCIC direct insurance operation has risen from 3% in 1981 to 70 - 80% according to available FCIC estimates for 1985.

We believe it is too costly for FCIC to maintain a full government operation to handle as little as 20% of the volume of business for which it was designed.

The FCIC, in its advance notice of proposed rulemaking, states that it estimates that conversion of FCIC from a direct writer of insurance to strictly a reinsurer will result in an estimated savings of $37 to $39 million in the initial year, with an annual savings thereafter of around $29 million. AACI believes that the annual savings resulting from the phase out could be as high as $50 million.

Using the median FCIC cost savings estimate of $38 million resulting from phase out and dividing this by the estimated total of premiums dollars written by the direct insurance operation in 1985, provides us with an excessive cost figure of 23.5¢/premium dollar for policies written through the direct insurance program.

Using this comparison, AACI estimates that the excess cost to write FCIC policies through its direct insurance program in 1985, based on an average MPCI policy generating about $1,275.00 in premium, is $299.63 per FCIC policy. We believe such waste of taxpayer funds should end immediately.

It is rare when a government agency can save the U.S. taxpayers money and improve delivery and service of a program to the recipients. The phase out of the direct insurance program would accomplish just that.

At its March 1985 Board of Directors meeting, the AACI Board directed its staff to develop two programs which would facilitate the phasing out of the FCIC direct insurance operation.

Through Board resolution, the AACI staff has been directed to establish a personnel clearing house in Washington, D.C. which could facilitate the placement of many of the FCIC employees within the private sector upon phase out. This activity is intended to aid FCIC in placing its employees within the private sector to ensure that phase out would create as little disruption as possible within both private and public sectors.

Phase out occurring on October 1, 1985 would provide both the FCIC and the private sector with enough lead time to develop this personnel clearing house.

The AACI Board of Directors also directed the AACI staff and members to work with MMA's to ensure a smooth transition of agents from the MMA system to the reinsurance system. Phase out on October 1, 1985 would provide the reinsured companies and the MMA's an adequate period of time to facilitate transition into a single delivery system with a minimum amount of disruption.

In closing, Mr. Chairman, we in AACI firmly believe the Multiple Peril Crop Insurance Program is working and working well. We are indeed suportive of the Administration budget request under existing legislation. These funds ($239,234,000 for administrative and operating expenses, and $135,000,000 for premium subsidy) will enable the private industry to continue expansion of the program while at the same time providing the farmer with the extra boost he needs to obtain protection.

It is our belief that the most equitable, least expensive, long-term program of dealing with all of the natural disasters is through a nationwide multiple peril crop insurance program. Private industry has shown without any doubt that we are capable of delivering the program and we are committed to its full implementation. We cannot do it alone, however. There must be sufficient funding of the program. Without sufficient funding, not only will the nation's farmers be shortchanged, but also the interest of private insurance companies who have committed large amounts of their resources, both physically and financially, to making this program a success.

Again, Mr. Chairman, we appreciate the opportunity to testify in support of this vital program.

COMMENTS ON FEDERAL CROP INSURANCE CORPORATION PHASE OUT OF DIRECT INSURANCE OPERATION

I. Introduction.

On March 11, 1985, the Federal Crop Insurance Corporation (hereinafter referred to as "FCIC") published in the Federal Register an advance notice of proposed rulemaking to amend current FCIC policy regulations.

The purpose of this pre-rulemaking announcement is to give advance notice that FCIC is considering the feasibility and advisability of providing insurance to producers of agricultural commodities exclusively through the underwriting of policies sold by commercial companies rather than through its present direct insurance operation. Under this proposal, FCIC would be restructured to more closely resemble a commercial reinsurance company. Such a restructuring would terminate its present direct insurance operation.

The following comments are submitted on behalf of the American Association of Crop Insurers (hereinafter referred to as "AACI"). AACI was organized in 1980 by private insurance industry leaders who believed it to be in the best interest of American Agriculture to institute a Multiple Peril Crop Insurance ("MPCI") Program as a replacement for the government's traditional ad-hoc low yield disaster payment program. The Federal Crop Insurance Act of 1980 (hereinafter referred to as the "Act of 1980") was the comprehensive crop insurance law that resulted from this combined effort.

"Promoting Agriculture Through Crop Insurance Using the American Agency System" is the slogan and the heart beat of AACI. AACI believes that farmers are best served by a crop insurance protection plan that provides the needed financial protection for their growing crops and which provides each individual grower the flexibility to purchase protection against risks or hazards that pose a threat to his operation. AACI further believes that the farmer's insurance needs are best served by protection from the private companies that provide protection for the rest of the farm business.

AACI is a non-profit trade association whose membership is made up of private companies that write crop insurance. Member companies of AACI write the vast majority of the Government reinsured MPCI and are the major writers of private Crop Hail and Fire protection for farmers. AACI also represents general concerns of agents and adjusters who participate in AACI through affiliate membership programs.

II. Issue Presented.

Whether FCIC should phase out the FCIC direct insurance operation and convert strictly to a reinsurance operation; and if phase out is feasible and advisable, when should phase out of the FCIC direct insurance operation occur?

III. Conclusion.

AACI supports the FCIC's proposed phase out of the FCIC direct insurance operation. It is the belief of the members of AACI that the MPCI program will be most effectively and efficiently delivered to the agricultural sector via the reinsured private companies. The cooperative effort of FCIC and the private sector to develop an efficient delivery system which includes both good service to the farmer and cost effectiveness to the government has resulted in reinsured companies writing up to 80% of the estimated business in 1985.

The continuing objectives of FCIC management in implementing the MPCI program are, and should be: (1) Improving service to crop insurance policy holders; and (2) utilizing taxpayer dollars more efficiently and effectively. In view of these objectives, it is prudent for FCIC management to consider the feasibility of continuing operation of a system which handles approximately 20% of the business for which it was designed. FCIC management should review the Congressional directive to utilize reinsurance "to the maximum extent practicable", the costs savings involved with the phase out and the fact that delivery and service capability would improve of phase out occurs, and only the most compelling reason should prevent phase out of the direct insurance operation. However, upon review of the facts and circumstances, there does not exist a compelling reason to continue the cost inefficient direct insurance operation.

At a time when government costs are a prime concern, coupled with the obvious willingness and capability of the reinsured companies to deliver and service the MPCI program, it is in the best interest of the farmer, taxpayer and MPCI program to terminate FCIC direct insurance operations as quickly as possible and allow the reinsured companies to carry on the activity for which they are best suited -- delivering the MPCI program at its lowest cost to the farmer and taxpayer AND providing the service necessary to make the program a success.

The most appropriate date for phasing out the direct insurance operation is October 1, 1985, the date the current Agency Sales and Service (Master Marketers) Agreement expires. Phase out on October 1, 1985 will facilitate a transition within FCIC to a reinsurance operation, while causing minimal employment disruption within the public and private sectors.

AACI believes that FCIC can be transformed from a direct insurance operation to strictly a reinsurance operation without loss of any capacity and without any extensive hardship on individuals and organizations that serve the nation's farmers.

Phase out of the direct insurance operation is a necessary development in assuring the success of the Federal Crop Insurance Program. In support of this conclusion, we offer the following.

IV. Summary of Arguments.

1. Congress directed the FCIC to utilize reinsurance of insurers "to the maximum extent practicable" to deliver the MPCI program to farmers. Since reinsured companies can deliver and service 100% of the MPCI program, Congressional direction requires phase out of the FCIC direct insurance operation.

2. FCIC estimates that phase out of the direct insurance program would save U.S. taxpayers up to $39 million in the first year and $25 million each year thereafter in reduced FCIC operating costs. AACI estimates annual savings could be as high as $50 million. In view of this savings, coupled with the improvement in the level of service to the farmers offered by the

private companies, it is imperative that phase out occur as soon as possible.

3. Phase out of the direct insurance operation would allow private companies, who are able to provide better service to policyholders at a lower cost to the taxpayer, to service all policies.

4. FCIC phase out of the direct insurance program will create an incentive for private insurers to increase their delivery activities and to develop new markets at a time when the MPCI program is exhibiting growth potential. For example, 40% of the MPCI policyholders in 1985 were not policyholders the previous year. In addition, the incentive created will spur private companies to "gear up", which will absorb public sector employees in a non-disruptive manner.

5. Having only one delivery system for the MPCI program would add simplicity to the Federal Crop Insurance Program and would obviate much of the confusion currently experienced within the marketplace. October of 1985 would be the ideal time to simplify the delivery system of the MPCI program.

V. Background.

A. Private Sector MPCI Experience

Up until the 1950's, private insurance companies offered only crop hail and fire insurance protection to farmers. In the 1950's, a few private companies began a limited experiment in writing MPCI that provided protection from adverse weather and other unavoidable perils. Most of these programs were run in conjunction with the crop hail programs that the private insurers offered. Unfortunately, the programs experienced only limited success. Additional attempts were made by private companies in the early and mid-1970's. However, heavy losses in the mid-1970's virtually ended the private sector MPCI experiment. The bad loss experience was compounded by: (1) the coverage being based on the Agricultural Stabilization and Conservation Service program yield, which did not accurately reflect actual yield history of individual farmers; (2) inadequate risk dispersion and rating which was caused primarily by having to compete with the government-subsized crop insurance program, and (3) lack of catastrophic reinsurance protection at affordable prices, to protect against disasters occurring over large geographic areas. As a result, private sector MPCI programs were phased out and private insurers offered only crop hail and fire insurance.

B. Government Attempt at MPCI Program

In 1938, the Federal Government tried its hand at offering an MPCI program under authority of a crop insurance law providing protection against unavoidable perils for wheat growers. The administrative costs of the program were paid from the general treasury, thereby subsidizing the premium rate by about 35%. The program was organized and funded as a government corporation. By the end of the 1945 crop year, the government corporation was bankrupt. The government program was restructured on a limited experimental basis beginning in 1948. For the period of 1948 through 1980, the government program remained unsuccessful in obtaining high rates of farmer participation and fell short of targets for collecting adequate premiums.

C. 1980 Amendments to Government Crop Insurance Program

In 1980, Congress enacted a comprehensive crop insurance law with the support of the private insurance industry, farm commodity groups and farm organizations, all of whom desired to end costly ad-hoc disaster payment programs and at the same time make affordable insurance protection available so farmers could protect their business just as the main street merchant can protect his business. The Act of 1980 was far reaching and provided a vehicle for all agricultural producers to have affordable protection available through private companies backed by government catastrophic reinsurance. The Act of 1980 included three elements necessary for a successful MPCI program: (1) it established Congress' intent to use to the maximum extent practicable the private insurance industry to deliver the MPCI program; (2) it included a program of catastrophic reinsurance for "risk bearing" private companies writing and servicing their own policy for farmers and (3) it eliminated the government's costly and inequitable low yield disaster payment programs. It was through this blending of responsibilities -- private sector delivery system coupled with backing by government catastrophic reinsurance, and termination of ad-hoc disaster payment programs -- that resulted in affordable MPCI protection becoming available to the nation's farmers.

D. Current Status of MPCI Program

Since the Act of 1980 implemented the reinsurance program, premium income on reinsured paper has increased dramatically. Since 1981, the premium income on reinsured paper (policies issued by private companies) has increased from $12.8 million to an estimated $378 million for crop year 1985. This is an increase of 2,900%. During the same time period, the share of business written by reinsured companies compared with the FCIC direct insurance operation has risen from 3% in 1981 to 70 - 80% according to available FCIC estimates for 1985.

The following chart compares the business written within the two delivery systems and illustrates the rising percentage and volume of business written on reinsured paper. (Percentage of total Book of Business in parentheses.)

	Reinsured Companies	Master Marketers
1981	$12.8 million in premiums (3%)	$366.4 (97%)
1982	$78.0 (20%)	$287.4 (80%)
1983	$107.4 (36%)	$184.1 (64%)
1984	$257.0 (60%)	$176.0 (40%)
1985	$378.0 (est. at 70%) (70%-80%)	$162.0 (est. at 30%)

(Premium volume and percentages provided by FCIC.) (See also Exhibit C.)

It is quite clear that the program implemented pursuant to the Act of 1980 has become very successful. In view of this and other considerations, the FCIC management believes it is prudent to reconsider the wisdom of maintaining a full government operation to handle as little as 20% of the volume of business for which it was designed. AACI believes that FCIC management should phase out its direct writing program and restructure the FCIC to more closely resemble a commercial reinsurance operation. It is this consideration upon which we comment.

VI. Arguments.

1. Congress directed the FCIC to utilize reinsurance of insurers "to the maximum extent practicable" to deliver the MPCI program to farmers. Since reinsured companies can deliver and service 100% of the MPCI program, Congressional direction requires phase out of the FCIC direct insurance operations.

In the Act of 1980, Congress directed the FCIC to provide reinsurance, "to the maximum extent practicable", to insurers that insure producers of any agricultural commodity. (See, §106(e) of the Act of 1980.) Congressional intent and direction to utilize reinsured private companies to sell and service the federal crop insurance program is obvious upon review of the debates and discussions regarding the Act of 1980 on both the Senate and the House floors. The following statement by Senator Huddleston, member of the Senate Agriculture Committee, and the Act of 1980's Senate sponsor, clearly illustrates the intent of Congress with regard to the participation of the private sector through the reinsurance program:

> "The federal all risk crop insurance program cannot expect to have maximum participation by farmers unless private industry commits its resources and delivery system to all risk insurance. S. 1125 [Senate version of the Act of 1980] repeals the 20-county limit on the reinsurance program and provides that the federal cost share for federal crop insurance premiums will also apply to crop insurance written by private companies if the policies are reinsured by the federal government."

Congressional Record, September 10, 1979, page S12245.

Senator Huddleston later went on to state:

> "The Federal Crop Insurance Corporation to the maximum extent feasible, should utilize this maximum resource pool in implementing the nationwide all crop all county crop insurance program under S. 1125, rather than establishing a massive new federal bureaucracy." [Emphasis added.]

Ibid.

In view of these statements made by the bill's sponsor, and numerous other statements made on both the House and Senate floors, Congressional intent and direction requires FCIC to utilize reinsured companies to the maximum extent practicable to deliver MPCI.

It is evident that Congress anticipated that at some time in the future the dual delivery system would result in duplicated efforts and functions and that one delivery system would ultimately be the most efficient and cost effective method for delivery and service.

In view of the capability of reinsured private companies to expand the volume of business written on reinsured paper from 3% to an estimated 80% of all business written between the period of 1981 - 1985, it is evident that the private insurers are capable of being the sole delivery system for the MPCI program. The Congressional directive to utilize the private sector to the "maximum extent practicable", under the current circumstances, requires the FCIC to cease its direct insurance operation as quickly as possible and allow the private companies to deliver the MPCI program through their well-established network.

This Congressional directive should not be taken lightly by the FCIC during its considerations and deliberations with regards to the issue presented.

2. FCIC estimates that phase out of the direct insurance program would save U.S. taxpayers up to $39 million in the first year and $25 million each year thereafter in reduced FCIC operating costs. AACI estimates annual savings could be as high as $50 million. In view of this savings, coupled with the improvement in the level of service to the farmer offered by the private companies, it is imperative that phase out occur as soon as possible.

The FCIC, in its advance notice of proposed rulemaking, states that it estimates that conversion of FCIC from a direct writer of insurance to strictly a reinsurer will result in an estimated savings of $37 to $39 million in the initial year, with an annual savings thereafter of around $29 million. (*See*, Exhibit A.) AACI believes that the annual savings resulting from the phase out could be as high as $50 million. We have attached as Exhibit B an explanation for this estimated savings projection.

In view of the cost savings, even if you use the savings estimate of the FCIC, it would appear that FCIC should phase out its direct writing operation *unless* it is determined that the operation is necessary to implement the MPCI program. Past history of the ability of the private companies to deliver MPCI and the sharp rise in the percentage of policies written on reinsured paper indicates that the FCIC direct insurance operation is no longer a necessity.

Current FCIC staffing levels are designed to handle more business than is being written by the direct insurance operation. FCIC believes the direct insurance operation would handle as little as 20% of the volume of business for which it was designed. FCIC, in its Congressional briefing paper, states that FCIC direct insurance operations are inefficient and cost ineffective at current and projected business levels. (*See*, Exhibit C.)

Per Policy Savings

Using the median FCIC cost savings estimate of $38 million (*see*, Exhibit A) resulting from phase out and dividing this by the estimated total of premiums dollars written by the direct insurance operation in 1985, $162 million, (*see*, pg. 5 above) (38,000,000 divided by $162,000,000 = 23.5c/premium dollar written) provides us with an excessive cost figure of 23.5c/premium dollar for policies written through the direct insurance program.

Using this comparison, AACI estimates that the excess cost to write FCIC policies through its direct insurance program in 1985, based on an average MPCI policy generating about $1,275.00 in premium, is $299.63. 1/ (23.5c/premium dollar X $1,275 = $299.63) This substantial cost illustrates the burden FCIC's direct insurance operation places upon U.S. taxpayers.

[1/] Using the AACI estimate of savings of $50 million, the excess cost per premium dollar is 30.8c and the excess cost/average policy is $393.98.

In view of this savings to the taxpayer, it is very important that FCIC terminate its direct insurance operation as soon as feasibly possible.

3. Phase out of the direct insurance operation would allow private insurers, who are able to provide better service to policyholders at a lower cost to the taxpayer, to service all policies.

In argument number 2 above, it had been established that phase out would save the U.S. taxpayers, using FCIC estimates, approximately $300.00 per policy. It is rare when a government agency can save the U.S. taxpayers money and improve delivery and service of a program to the recipients. However, phase out of the direct insurance program would accomplish just that.

One of the most important components of a successful insurance program is the level of service offered by the insurer. Although service has improved recently, one of the major criticisms of the FCIC's direct insurance operation is the level of service offered to farmers. The reinsured private companies have historically offered better service to policyholders, at a lower cost, than the direct insurance operation of the FCIC.

The reasons for this are obvious. Private companies have licensed professional agents located in the counties where the farmers' crops are planted. The licensed professional agent that sells the farmer auto insurance would also offer the farmer MPCI to cover his crops. Furthermore, it is probably this local agent that sells and services the farmer's crop hail and fire insurance policy, thereby allowing the farmer's total crop insurance protection to be serviced by the same agent. This personal service opportunity greatly enhances both the image and acceptability of MPCI. This is evidenced by the fact that 40% of the business written by reinsured private companies in 1985 was business of new policyholders.

The licensed professional agents have a stake and reputation built upon providing good service to their customers. Phase out of the direct insurance operation will spur the private sector delivery system to greater activity, equating into more policies sold and a greater percentage of acreage and crops covered.

In addition, the maximum turnaround time on claims serviced by the private companies, by state laws, is 30 days. Policy holders serviced by the FCIC direct insurance operation historically have experienced a turnaround time which is substantially longer, detrimentally affecting the acceptance of the program.

Moreover, continued operation of the direct insurance program would place Master Marketers ("MMA's") and FCIC employees in the difficult position of operating a lame duck program. Most of the qualified personnel working for the FCIC would relocate within the private sector, leaving FCIC with a workforce that is least able to provide good service to existing FCIC policies. This deterioration will damage the reputation of the program to such an extent that even private company sales will be affected.

4. FCIC phase out of the direct insurance program will create an incentive for private insurers to increase their delivery activities and to develop new markets at a time when the MPCI program is growing. For example, 40% of the MPCI policyholders in 1985 were not policyholders the previous year.

In addition, the incentive created will spur private companies to "gear up", which will absorb public sector employees in a non-disruptive manner.

Since 1980, the MPCI program has experienced increased participation by private insurance companies. This is evidenced by the tremendous rise in the percentage of business written on reinsured paper. This increased activity by the private sector has resulted in the direct insurance operation writing approximately 20% of the business for which it was designed. FCIC cost saving estimates establish that the excess cost of operating the direct insurance operation is approximately $300.00 per policy. Competition between the private company and the FCIC delivery system creates a disincentive for the private companies to increase their activities in the market place. However, even with this disincentive, the private companies, with many of them utilizing their crop hail and fire operations, have increased their share of the total book of business to an estimated 70% - 80% in 1985.

Furthermore, FCIC believes the recently negotiated reinsurance treaty will take effect on July 1, 1985, which will require that private companies write policies for all farmers who want protection. When this agreement takes effect, there will exist no justification for the FCIC to continue to compete, in an inefficient and costly manner, with the private companies.

More important, the private companies are and will continue to be more aggressive in developing new markets. An example of this is the recent increase in initial policy holders. As stated in argument number 3 above, 40% of the MPCI policies written by reinsured companies in 1985 were first policyholders. Reflecting back to the goals of the FCIC in delivering and servicing the MPCI program -- offer the best service to the insured, at the least cost to the taxpayer and to insure the highest percentage of acreage and crops -- it is evident that the private companies could provide FCIC with the delivery system and service to attain these goals.

Private Sector Employment Opportunities

At its March 1985 Board of Directors meeting, the AACI Board directed its staff to develop two programs which would facilitate the phasing out of the FCIC direct insurance operation.

Through Board resolution, the AACI staff has been directed to establish a personnel clearing house in Washington, D.C. which would facilitate the placement of FCIC employees within the private sector upon phase out. This activity is intended to aid FCIC in placing its employees within the private sector to ensure that phase out would create as little disruption as possible within both private and public sectors.

Phase out occurring on October 1, 1985 would provide both the FCIC and the private sector with enough lead time to develop this personnel clearing house and place many public sector employees within the private sector. Delaying phase out of the direct insurance operation would severely hinder this effort, since many employees would be needed by FCIC to continue the operation, even if it only writes 20% of the overall business. In addition, the private sector would be reluctant to establish a clearing house to "raid" the FCIC of its best employees. Delay in the phase out would also place FCIC in the unenviable position of losing its best employees to the private sector, while continuing operations with the employees not "placed" in the private sector. It is logical to assume that delaying the phase out would result in a decline in the level of service offered by FCIC and ultimately would place FCIC in a position of having to find positions for, or terminating employment through reductions in force of, those employees not placed in the private sector during a gradual phase out.

If the FCIC direct writing program is phased out in October 1985, the FCIC, AACI and other private sector organizations can openly work together to place FCIC employees in positions within the private sector. Gradual phase out would limit the effectiveness of this coordinated effort and would leave FCIC with the burden and responsibility to place employees, once the private sector had absorbed the "employable" FCIC employees.

The AACI Board of Directors also directed the AACI staff and members to work with MMA's to ensure a smooth transition of agents from the MMA system to the reinsurance system. Phase out on October 1, 1985 would provide the reinsured companies and the MMA's an adequate period of time to facilitate transition into a single delivery system with a minimum amount of disruption. However, delay in the implementation of phase out would place the MMA's in the difficult position of working with the reinsured companies to effectuate transition while there would continue to exist a two-prong delivery system. Private insurers would be less willing to commit themselves to a gear-up which would absorb the MMA agents. Again, this would leave the MMA's in a position of having their best personnel "recruited" by the reinsured companies, while attempting to deliver MPCI with their least efficient employees.

AACI believes that the transition of FCIC from a direct insurance operation to a reinsurance operation can take place without loss of any capacity and without any extensive hardship on individuals and organizations that serve the nation's farmers if both the public and private sector can work together in a coordinated effort.

5. Having only one delivery system for the MPCI program would add simplicity to the Federal Crop Insurance Program and would obviate much of the confusion currently experienced within the marketplace. October of 1985 would be the ideal time to simplify the delivery system of the MPCI program.

Currently the Federal Crop Insurance Program is delivered through two vastly different and distinct systems: (1) direct insurance operation of FCIC through federal employees or MMA's; and (2) reinsured private insurance companies writing policies on their own paper which is reinsured by the FCIC. While both delivery systems offer the same protection at the same cost to the farmer, the manner of delivery is vastly different. The direct insurance operation of the FCIC utilizes federal paper and turns over servicing of the policies to FCIC. On the other hand, the reinsured private insurers write private company policies (reinsured by FCIC) and service the policies themselves. These different delivery systems breed confusion within the crop insurance industry and the agricultural sector with regard to the policy and service offered by the alternative system. The goal and objective of the Federal Crop Insurance Program is to offer the best service to the insured, at the lowest cost to the taxpayer and to insure the highest percentage of acreage and crops planted throughout the country. It would appear that the manner in which to reach these goals would be offer crop insurance through a delivery system which is simple, clear, direct and cost efficient, and which includes the local licensed professional insurance agent whom the farmer utilizes for other insurance needs.

October 1, 1985 would be the ideal date to phase out the FCIC direct insurance operation and simplify the MPCI delivery system.

On October 1, 1985 the current Agency Sales and Service (Master Marketers) Agreement expires. In addition, a new reinsurance agreement is being negotiated which FCIC believes will take effect on July 1, 1985. (See, Exhibit C, p. 3.) Private sector interest in the new agreement and a realization of profit potential within the MPCI program have caused private companies to develop plans for "gearing" up to meet industry potential.

The incentive for greater activity by the private sector created by the phase out of the direct insurance operation would emphasized the incentives created by the revised Standard Reinsurance Agreement. FCIC states that the new reinsurance agreement reflects the changing roles of the FCIC as a reinsurer and offers the following features:

(1) Reinsured companies would retain additional risk in return for potential underwriting gain;

(2) Companies would offer insurance coverage on all eligible crops in all eligible counties;

(3) An assigned risk pool will be established to accommodate high risk policies.

These new features, and other revisions to the Standard Reinsurance Agreement, will provide the private sector with the risk incentive and profit making potential which will spur greater activity within the MPCI program.

Furthermore, since the new reinsurance agreement will require that private companies write policies for all farmers that desire insurance protection, there is no justification for the government to compete, on a subsidized basis, with private companies in the marketplace using taxpayers dollars.

EXHIBIT A

Federal Register
Vol. 50, No. 48
Tuesday, March 12, 1985

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

DEPARTMENT OF AGRICULTURE

Federal Crop Insurance Corporation

7 CFR Chapter IV

[Docket No. 2077S]

Various Crop Insurance Regulations; Advance Notice of Proposed Rulemaking

AGENCY: Federal Crop Insurance Corporation, USDA.

ACTION: Advance notice of proposed rulemaking; request for public comment.

SUMMARY: The purpose of this pre-rulemaking announcement is to give advance notice that FCIC is considering the feasibility and advisability of providing insurance to producers of agricultural commodities through the underwriting of policies sold by commercial companies rather than through its present direct insurance operation. Under this proposal, FCIC would be restructured to more closely resemble a commercial reinsurance company.

If such a course of action is determined feasible and advisable, conversion would be October 1, 1985, the date the current Agency Sales and Service (Master Marketing) Agreement expires.

FCIC invites public comment on this concept. FCIC, after reviewing all comments received pursuant to this notice, may propose that such amendments be made in a notice of proposed rulemaking to be published in the Federal Register at a later date.

DATE: Written comments, data, and opinions on this advance notice of proposed policy rulemaking must be submitted not later than April 11, 1985, to be sure of consideration.

ADDRESS: Written comments on this advance notice of proposed policy rulemaking should be sent to the Office of the Manager, Federal Crop Insurance Corporation, Room 4096, South Building, U.S. Department of Agriculture, Washington, D.C. 20250.

FOR FURTHER INFORMATION CONTACT: Peter F. Cole, Secretary, Federal Crop Insurance Corporation, U.S. Department of Agriculture, Washington, D.C. 20250, telephone (202) 447-3325.

All comments made pursuant to this notice will be available for public inspection in the Office of the Manager, Federal Crop Insurance Corporation, Room 4096, South Building, U.S. Department of Agriculture, Washington, D.C., during regular business hours, Monday through Friday.

SUPPLEMENTARY INFORMATION: The Federal Crop Insurance Corporation (FCIC) issues this advance notice of intent to publish Proposed Rulemaking to amend current FCIC policy regulations.

If a decision is made to restructure FCIC along more commercial reinsurance company lines, FCIC will continue to comply with all requirements set forth in the Federal Crop Insurance Act (Act). Among other functions, FCIC would continue to set and/or approve rates and coverages of crop insurance policies, provide program direction, and maintain quality assurance capability.

Should such a conversion be deemed feasible and advisable, FCIC will maintain operations of sufficient capacity to service carryover FCIC direct insurance business until such time as the business can be converted to reinsured policies.

A new Reinsurance Agreement would be developed which would be adequate to accommodate the additional responsibilities that will be assumed by reinsured commercial companies under this proposal.

This action is being considered in order to make more effective and efficient use of taxpayer dollars. There has been a steady increase in the volume of crop insurance sold through reinsured companies. Since 1981, premium income on reinsured paper has increased from $12.8 million to an estimated $378 million for crop year 1985 * * * an increase of 2,900 percent.

During the same time period, the share of business written by reinsured companies compared with FCIC direct insurance has risen from 3 percent to 70–80 percent according to available estimates.

In the opinion of FCIC management, it is prudent to reconsider the wisdom of maintaining a full government operation to handle as little as 20 percent of the volume of business for which it was designed. The action that is being considered is intended to assure the highest possible return on every federal dollar spent, while providing the highest level of service to America's agricultural producers.

The conversion of FCIC from a direct writer of insurance to strictly a reinsurer may result in substantial government cost savings due to the reduced need for a support system for a direct insurance operation. Preliminary estimates suggest that initial savings may be in the $37–39 million range, with long range annual savings of around $29 million.

Authority: Secs. 506, 516, Pub. L. 75–430, 52 Stat. 73, 77, as amended (7 U.S.C. 1506, 1516)

Issued in Washington, D.C., on March 6, 1985.

Dated: March 6, 1985.

Peter F. Cole,

Secretary, Federal Crop Insurance Corporation.

Approved by:

Edward Hews,

Acting Manager.

[FR Doc. 85–5744 Filed 3–11–85; 8:45 am]

BILLING CODE 3410–08–M

EXHIBIT B

ESTIMATE OF COST REDUCTION

	1985 Current*	Without FCIC Direct Writing **
Headquarters	$ 9,913,965	- $ 4,400,000
KC		
Office of Director	$ 871,742	- $ 800,000
Marketing Division	$ 29,548,000***	- $29,548,000
Claims	$ 11,600,000	- $11,600,000
Data Automation	$ 7,337,000	- $ 7,337,000
Program Division	$ 817,000	- $ 400,000
Field Operations Office	$ 16,843,000	- $16,843,000
Actuarial Division	$ 22,159,000	
Reinsurance Division	$115,726,000****	+$23,515,000
Potential Net Savings		+$49,413,000

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* Figures included in FY 1985 Status of Funds Report.

** AACI Estimated Reductions Possible.

*** Allocation Adjusted +$2,021,850 to cover commission on $175,5 million of premium written.

**** Adjustments to current allocation:

Current reinsurance allocation	$115,726,000
Needed for 1984	$ 83,086,000
Surplus due to premium volume	$ 32,640,000
Cost of Handling MMA Business through reinsurance program ($175,479,000 x .32 =)	$ 56,155,280
minus surplus	-$ 32,640,000

F.Y. 1985 SUMMARY STATUS OF FUNDS REPORT
As of January 31, 1985

NOTE: Time lapsed is 34%

Organizational Unit	Cumulative Obligations through Janaury 31 F.Y. 1984	Cumulative Obligations through Janaury 31 F.Y. 1985	Revised Financial Plan	Percent Obligated	F.Y. 1985 PROJECTED To End-of-Year	F.Y. 1985 PROJECTED E-O-Y Balance
HEADQUARTERS:						
Office of the Manager..........	$353,957	$509,190	$0		$1,370,597	-1,370,597
Congress. & Public Affairs....	55,943	76,745	0		230,653	-230,653
Field Offices Division........	1,955,030 *	55,125	0		163,002	-163,002
Office of the Asst. Manager						0
for Administration...........	9,672	16,962	0		142,510	-142,510
Personnel..................	570,283	725,347	0		1,261,936	-1,261,936
EEO......................	0	6,057	0		23,609	-23,609
Comptroller................	570,243	640,330	0		1,765,236	-1,765,236
Strategic Plan. & Eval.....	145,174	106,146	0		300,575	-300,575
Office Automation Study..	0	91,637	0		241,590	-241,590
Management Support.........	1,451,330	1,473,009	0		4,405,312	-4,405,312
Subtotal, Headquarters..	5,065,122	3,702,156	0		9,913,900	-9,913,900
MANAGER'S RESERVE..............			0			0
Undistributed.................		214,094	0		503,439	-503,439
OPERATIONS, K.C................						
Office of the Director.......	250,620	291,945	0 *		571,742	-571,742
Marketing Division...........	374,997	[illegible]	0		27,547,950 a/	-27,547,950
Reinsurance Division.........	46,201	1,754,500	0		115,726,305 b/	-115,726,305
Actuarial Division...........	565,646	5,669,554 *	0		22,159,119 c/	-22,159,119
Claims Division..............	629,562	5,070,575	0		11,605,040 d/	-11,605,040
Acreage Report Spot Check...	0	0	0		0	0
Data Automation Division......	1,525,219	2,492,051	0		7,336,546	-7,336,546
Program Division.............	0	292,366	0		817,924	-817,924
Subtotal, Operations, KC...	3,492,554	16,485,094	0		186,065,506	-186,065,506
FIELD ACTUARIAL OFFICES..........	1,930,200	2,151,015	0		6,336,020	-6,336,020
FIELD OPERATIONS OFFICES........	12,903,989	7,599,366	0		16,843,172 e/	-16,843,172
GRAND TOTAL, FCIC..............	23,546,665	30,101,917	190,094,000 **		$211,662,037 f/	-21,562,037

* Reflects shift of ASCS National Agreement from Field Offices Division, Washington, D.C. in F.Y. 1984 to Actuarial Division, Kansas City in F.Y. 1985.

** Includes continuing resolution amount of $200,000,000 less the Deficit Reduction Act Amount of $1,906,000. Excludes F.Y. 1985 pay cost supplemental requested of $502,000.

The following F.Y. 1986 President's Budget items for F.Y. 1985 are included in this report:

a/ Agents' commissions ($24,300,000) and advertising ($1,500,000 for National advertising, and $1,000,000 co-op advertising for the Field Operations Offices).

b/ Reinsurance administrative expense ($90,720,000) and reinsurance loss adjustment ($24,573,000).

c/ Revised ASCS National Agreement ($12,700,000).

d/ Loss adjustment contractors ($9,995,000).

e/ Excludes loss adjustment contractors currently being charged to Claims Division in Kansas City.

f/ Reflects the need for Administrative and Operating Expenses ($21,000,000) to be paid from the FCIC Fund to be reimbursed in subsequent fiscal years.

EXHIBIT C

Congressional Briefing Paper

A NEW DIRECTION FOR FEDERAL CROP INSURANCE

Preface: On March 11, 1985, a Notice of Pre-rulemaking is being published in the Federal Register to amend certain policy regulations of the Federal Crop Insurance Corporation (FCIC). This notice is subject to public review and comment, as will be the Proposed Rulemaking that will follow.

The purpose of this pre-rulemaking is to give advance notice that FCIC is considering the feasibility and advisability of phasing out FCIC's direct insurance writing operation and convert FCIC to strictly a reinsurance operation.

Although a final decision on this issue may not be reached until as late as July 1, 1985, in the opinion of FCIC management the following factors bear directly on any fair evaluation of the action under consideration. They are, therefore, offered to assist in the evaluation process, and are not to be construed as constituting a prejudgment on the part of FCIC.

OBJECTIVE

- Improve service to crop insurance policy holders.
- Utilize federal dollars more efficiently and effectively.

BACKGROUND

- Crop insurance sales on reinsured paper have grown steadily since the reinsurance program began in 1981, while Master Marketer sales have steadily declined:

	Reinsured Companies	Master Marketers
1981	3% of Total Book of Business	$366.4 Million in Premium
1982	20%	$287.4
1983	36%	$184.1
1984	60%	$176.0
1985	70-80% (est.)	$162.0 (est.)

- During the same time period, premium income on reinsured paper rose from $12.8 million to an estimated $378 million for crop year 1985...an increase of 2,900 percent...while corresponding sales on Federal paper declined from $366.4 million to an estimated $162 million for crop year 1985...a decrease of 56 percent.
- Current FCIC staffing levels are designed to handle more business than is being written. FCIC direct writing operations are inefficient and cost ineffective at current and projected business levels.
- The conversion of FCIC to strictly a reinsurance operation would allow FCIC to decrease staff, eliminate duplicative delivery system functions, and improve service to policyholders.

MAJOR ELEMENTS OF THE PLAN

1. Convert FCIC to solely a reinsurance operation.

   A. To facilitate this conversion, an appropriate date to terminate current Agency Sales and Service (Master Marketer) Agreements would be September 30, 1985. A final decision on this will be made no later than July 1, 1985.

B. All business on FCIC paper not voluntarily transferred to reinsured paper by October 1, 1985, would be transferred by FCIC at a later date.

C. FCIC would be restructured to more closely resemble a traditional reinsurance company. Staffing reductions would be accomplished to the maximum extent possible through a hiring freeze with an aggressive outplacement program to reduce the negative impact on employees. No personnel actions would be taken until July, 1985.

D. FCIC would retain current actuarial functions (rate setting and coverage determination) until adequate company actuarial capability can be developed. At such time, the companies would assume primary responsibility to recommend rates and coverages. As required by law, FCIC would continue to review and approve rate and coverage recommendations from the private sector.

E. FCIC's oversight and review functions would be substantially strengthened, with quality assurance receiving highest priority. Integrity of insurance offer would be scrupulously maintained, and financial stability of reinsured companies and their adherence to FCIC guidelines and regulations would be assured.

F. The reinsured companies would assume primary responsibility for new program research and development activities on a cost-sharing basis with FCIC.

G. The conversion of FCIC from a direct writer of insurance to strictly a reinsurance operation could result in internal cost savings of an estimated $54 million a year, compared to costs budgeted for fiscal year 1984. (About $25 million of that savings would be offset by additional costs associated with reinsuring the book of business currently on federal paper.) Additionally, $8-10 million in planned program improvements would be cancelled, resulting in initial estimated net savings of $37-39 million to the taxpayers.

H. The conversion would not require legislative action; it is permissible within the framework of the Federal Crop Insurance Act of 1980, as amended.

2. Phase out Premium and Administrative & Operating subsidies by 1990.

A. Initiate a phase out of public support for crop insurance by implementing the President's budget proposals which call for reduced premium subsidy and reduced appropriations for Administrative and Operating expenditures.

B. Legislative changes shall be needed in order to implement this proposal.

REINSURANCE AGREEMENT

- As a footnote to the above in a separate but concurrent action, the Standard Reinsurance Agreement is being revised to more properly reflect the changing roles of FCIC and the reinsured companies. The proposed agreement is scheduled to take effect July 1, 1985.

- Under the proposed agreement, companies would retain additional risk in return for potential underwriting gain.

- Other features of the proposed agreement include:

...An assigned risk pool will be established to accommodate high risk contracts.
...Companies would offer insurance coverage on all eligible crops in all eligible counties.
...Companies would be subject to substantial FCIC oversight and review.

COUNCIL OF IOWA RC&D AREAS AND SOUTHERN IOWA AGRICULTURAL BOOSTERS

STATEMENT OF FARRIS GRAY, COUNCIL OF IOWA RC&D AREAS, AND THE SOUTHERN IOWA AGRICULTURAL BOOSTERS

Senator BURDICK. Our next witness will be Farris Gray, Council of Iowa RC&D Areas and the Southern Iowa Agricultural Boosters.

Mr. GRAY. Mr. Chairman and Senator, it is indeed a pleasure to speak to you today concerning agriculture legislation as it relates to the Soil Conservation Service and the resource, conservation, and development areas in the agricutural sector.

This year our Nation celebrates the 50th anniversary of the Soil Conservation Service. The President has proposed that Federal conservation programs be severely cut and ended by 1986. If approved, this budget proposal would mean the loss of two-thirds of the Soil Conservation Service personnel throughout the States as well as the loss of Federal cost-sharing and assistance programs.

Today, Iowa ranks first in the Nation in the amount of soil loss annually. Seventy percent of its croplands lacks adequate conservation patronage. It takes 1,000 years to build up 1 inch of topsoil. Yet in only 100 years, we have lost 1½ inches of it.

We here must talk about national security. I believe that the people I represent think that one of the greatest defenses this Nation can have is a well-protected, high quality land base. We must take all precautions to prevent future dependency from other nations for our food, fiber, and minerals. Have we not learned a lesson from our energy dependence and vulnerability?

In 1984, 4,000 landowners in 14 southern Iowa soil conservation districts were assisted with conservation technical assistance through Federal and State cost-sharing programs. Some examples of our assistance in southern Iowa include the establishment of rural water; protection of several municipal reservoirs; the security in millions of dollars for senior citizen housing; new roads; bridge placement; and community buildings. RC&D generates 10 to 20 times the yearly Federal cost of operating their offices and one cost or the other, but these programs have created hundreds of jobs in a depressed economic area.

I am here to ask that you pay close attention to the legislative items relating to soil conservation. Federal budget support of the soil conservation programs remains vital. To undercut the soil conservation programs more than an across-the-board Federal spending cut would be disastrous.

Please realize that soil conservation and profit in agriculture interface. The 1981 farm bill has resulted in a desparate situation. The basic problem is there is no profit. Adjusted to 1967 dollars, from 1940 to 1983, net farm income went down 74 percent while investment in agriculture assets went up 223 percent. Farm incomes continued to decline over these years, even though we experienced this rapid increase in export and production.

In March, Senate hearings for the 1985 farm bill began. Secretary Block conceded that he could not name a farmer or a farm group who fully agreed with the White House's free market proposal and agreed that this proposal would result in a reduction of farm income over the next several years, promising that by the end of the decade, farmers would prosper when export markets increase. Yet, USDA tabulations provided by Secretary Block indicated that prices for corn and other basic grains would not be much higher in 1991 than now. We must ask ourselves: How many of our farm families will still be around to enjoy the promised land to come?

My wife and I operate a medium-sized farm which grosses $125,000 to $175,000 per year. This farm size is in a group of 12 percent of the Nation's total farms. Responsible for 69 percent of the total U.S. agriculture segment, it is these medium-sized farms that are having some of the most severe difficulties under the present economic conditions. Our land was purchased before land prices increased rapidly, with our annual investment occurring between 1956 and 1971. This is unlike the image fostered by those wishing to camouflage a severe agricultural economic problem by focusing on a few speculative agriculture investments made by a few farmers.

We have not made great machinery and facility investments, but because of low commodity prices, record high real interest rates, and some unfavorable weather conditions, our net worth has decreased 98 percent in the past 4 years. One or two more years of this rate of decline will find us insolvent.

In 1977, I was proud to be named as one of Iowa's five master farmers. This title was representative of good management practices. Eight years later, we struggled to reverse the direction of our farm toward insolvency, a direction not caused by our poor management, as many would have you believe, but a direction resulting from the Federal Reserve's tight money policy, the 1981 farm bill, and the massive budget deficits resulting, in part, from the 1981 tax bill.

We are not the exception. We are representative of rural America. Our county ASCS office reports that in the past 3 years, 33 percent of the farmers in our county have gone from bankruptcy, foreclosure, or curtailing of farm operations to cutout profits in all areas. The only way to get fair prices in agriculture is to get supply in line with demand. This could be accomplished with production controls, higher loan rates, and a grain reserve program with the loans being repaid through Government with interest. This program could be the lowest cost to Government with administrative expenses being the only cost.

In recent history, we have tried to get demand in line with supply and it has not worked. Can you name one other industry which does not match supply with demand? A parity program would allow a profit in agriculture. This must be done now before it is too late for a large number of some of the Nation's best farmers. The American public is spending the smallest percent of its income on food in history. While the farmer's cost of production has continued to increase, can we expect farmers, working to remain solvent, to invest in long-range soil conservation projects?

Left without Federal matching moneys for assistance, farmer moneys without loan help means to invest in the protection of a number one resource, which is soil. Corporate agriculture is an obvious solution. It would not be in the public's best interest to have corporate agriculture involved in the total food chain, as their lack of conservation practices has been shown.

We must assist farmers in the protection of our top quality soil. It is the envy of the world.

As a steward of soil, it has been my goal to leave the soil as good or better than it was when I found it, but I and the farmers I represent cannot do it alone, especially if there continues to be no profit in our industry.

I thank you for this opportunity to share our concerns for soil conservation and agriculture in the economy. As citizens of a representative democracy, too often we find ourselves caring less about what happens as long as it isn't happening to us, but there is no individual in our Nation nor in the future generations who is not directly affected by food production and the productivity of the land.

I welcome your questions and comments concerning soil conservation in the 1985 farm bill. Thank you, Mr. Chairman.

Senator BURDICK. I want to thank you for a good statement. I like that closing statement of yours. It says, "It is my goal in life to leave the soil as good or better than it was when I found it."

Mr. GRAY. That is what we have tried to do throughout the years. I was nominated for State conservation for the State of Iowa. That was in 1977. At that time, we had applied on our farm, nearly 100 percent of the soil erosion practices enacted at that time. A lot of the adjoining farms around it have been eroded, and the ditches are full of dirt. We have tried to keep our soil on our farms instead of down in the delta of New Orleans.

Senator BURDICK. Thank you very much.

Mr. GRAY. Thank you for the opportunity to present our views.

[Mr. Gray's prepared statement follows:]

STATEMENT OF FARRIS GRAY

SUMMARY

Soil conservation must be high in our national priorities. A thriving civilization cannot exist without adequate food. Federal budget support to soil conservation programs remains vital. To undercut the Soil Conservation Service and RC&D (Resource, Conservation and Development) areas by any more than an "across the board" Federal spending cut would be disastrous and destroy invaluable conservation strides made in the last 50 years. Soil conservation and profit in agriculture interface. Farmers working to remain solvent must be able to afford long range decisions that conserve their number one resource: the land.

To the United States Senate Committee on Appropriations:

Honorable United States Senators:

It is indeed a pleasure to have this opportunity to speak to you today. My name is Farris Gray and I am the operator of a 680 acre grain and livestock from near Bedford, Iowa. Our Southwest Iowa farm is representative of the landscape of most farms in Southern Iowa - rolling land and steep hills.

I come before you today representing both the Southern Iowa Agriculture Boosters, a non-profit organization for the betterment of agriculture in Southern Iowa and the Council of Iowa Resource, Conservation and Development Areas. The Resource, Conservation and Development Areas, commonly referred to as RC&D cover 33 of the 99 counties in Iowa. I have served as a member of this group since its organization in 1968.

This year, our nation will celebrate the 50th Anniversary of the Soil and Water Conservation Movement. This country, and especially Iowa, has made much progress since the "Dust Bowl Era". The President, through the USDA budget proposal, has proposed that federal conservation programs be severely cut or eliminated in 1986. If approved, this budget proposal would mean the loss of two-thirds of the Soil Conservation Service personnel across our state, as well as the federal cost-share and assistance programs which help fund conservation practices.

Today, 70% of Iowa's land lacks adequate conservation treatment. Iowa ranks first in the nation in the amount of soil lost annually due to water and wind erosion....a loss nearly twice the allowable limit necessary to maintain our soils. In the nation, 70% of our crop lands are eroding at rates greater than permissible. (1)

We are extremely concerned about the proposed USDA Soil Conservation Service budget cuts, including the PL-566 Watershed Program as well as an important program for all of Southern Iowa, the USDA Resource, Conservation and Development Program. Both Programs are administered by the Soil Conservation Service.

As of late, there has been much talk about national security. As a Veteran proud to have defended my country during the Korean War, I believe, as the people I represent do, that one of the greatest defenses and forms of national security this nation can have is a well-protected, high-quality land base. We should take all precautions to prevent future dependence on other nations for food, fiber, and minerals. Have we not learned a lesson from our energy dependence and the vulnerability which results? Dr. Hugh H. Bennett, founder of the United States Soil Conservation Movement stated,

> "Productive land is the most important and basic capital asset of all nations of important size. Good, permanently productive land is the basis of our wealth, our health, our happiness and our peace--here and abroad."

Soil Conservation work is of utmost importance to the agricultural base and economy in Southern Iowa. In 1984, 4000 landowners in 14 Southern Iowa Conservation Districts were assisted with conservation technical assistance. Conservation measures were planned on over 13,000 acres. Construction of terraces and gully control dams amounted to over 7 million dollars.

Virtually all of this construction was assisted by federal and state cost share programs--programs sharing from 30-50% of the total costs. A few years ago when the agricultural economy was better, approximately 20 to 30 percent in additional work was accomplished without cost sharing.(2) But even in a good economic setting, if vital conservation work, such as the construction of gully control dams and cropland terracing is to be accomplished, public assistance is necessary. The capital outlay necessary for the controlling of erosion is too great a burden for private ownership to bear alone. The reduction of business generated as a result of conservation construction activities would be a further blow to rural communities whose economies are already suffering.

The reduction of Soil Conservation Service technical and financial assistance to landowners would reduce protection of agricultural land and conservation activities by 50 to 60 percent. (3) Not only the cost share assistance, but the availability of technical assistance would not meet the needs of local communities. The watershed, (PL-566) and the Resource Conservation and Development (RC&D) programs in Southern Iowa are very significant to community well being, and economic development. The RC&D projects have explored and expanded woodlands and provided technical assistance to small communities, helping them solve critical problems.

Examples of RC&D assistance in Southern Iowa include:

- Establishment of rural water
- Protection of several municipal reservoirs with permanent soil conservation practices.
- Procurement of a state forester for my RC&D Area
- Establishing a Beef Production Testing Program
- Establishing permanent flocks of Giant Canadian Geese
- Organizing and developing alfalfa hay associations
- Promotion of warm season grasses in pasture rotations
- Organizing multi county no till seminars and field demonstrations
- Organizing multi county study committees to determine ways of converting public buildings and factories from fossil fuels to wood chip technology
- Securing funding for the largest and most modern fish hatchery in Iowa

Our RC&D Areas have secured millions of dollars in funding for: senior citizen housing; new roads; bridge replacement; community buildings, including schools, hospitals, community centers, law enforcement complexes; and railroad tracks so that industries in a town might have access to a main line.

RC&D Areas generate 10 to 20 times the yearly federal cost of operating their offices. (4) The Chariton Valley RC&D will often generate 40 to 50 times its federal operating expenses. In Southern Iowa, these programs have created hundreds of part-time and permanent full-time jobs in depressed economic areas.

The PL-566 Water Program has been very effective and needs to be continued for the development of resources and the protection of resources in the rural areas of Iowa. Southern Iowa is dependent upon surface water supply. Erosion control above the water supplies is critically important to human, livestock and industrial needs. Thirty-seven watershed areas are organized. Twelve watershed projects have been completed with 276 dams built. Seven projects are currently under construction. These projects have 77 dams to build. Local sponsors have acquired landrights and have made all of the local commitments and investments needed to proceed with their project. These 77 dams are awaiting financial construction assistance and cost share assistance.(5)

The major watershed projects include flood control dams with water supply in Adams, Union and Decatur Counties. The Walter's Creek, Twelve Mile Creek and Little River main dams provide potable water supplies to meet domestic needs for the first time in Southern Iowa history. Previous supplies have been inadequate, unsafe, and undesirable in both quantity and quality.

It is important to understand that watershed projects are aiding in the development of rural areas. Protection from flooding and an adequate water supply provide necessary incentives for the expansion of business and industrial activity. This expansion brings more goods and services, more jobs, and a more stable community to rural residents.

Soil Conservation programs are vital. To undercut the program by any more than an "across the board" Federal spending cut would be disastrous and would destroy the base program that the State of Iowa builds upon. Iowa is currently providing equal or greater dollar assistance to landowners than the federal program; yet it is the Federal monies that the State builds upon. Undercutting the conservation effort by reducing Federal assistance places an unfair burden upon State, County, and Local units of government, as well as on private landowners. This not only effects local economies, but it also threatens water quality and increases erosion hazards rather than arresting them.

As a result of the organized Soil Conservation District activities over the past 40 years, a noteworthy conservation ethic has developed across Southern Iowa. A reduction in the Federal base for these programs will have a tremendous negative impact on local interest, and in so doing, reverse a valuable "partnership spirit" that has resulted from this nation's conservation efforts. We ask that you pay close attention to the items relating to soil conservation in our country. It will be your decision that prevents a blanket reduction of Federal spending from halting conservation efforts and in so doing destroy invaluable conservation strides that have been made in the last 50 years.

In our nation's trend toward bigger and "better" farming, it is imperative that we continue to strive toward the wise and efficient use of the varied landscape our rural areas have to offer.

In order for good conservation practices to be implemented, there must be a PROFIT in agriculture. With no profit in agriculture, we witness the mining of land for every dollar possible in order to have a cash flow.

We are hearing a lot about the debt restructuring and loan guarantees, but it does no good to extend loans unless Agricultural Policy is changed to get a reasonable profit for what is produced.

It has been proven to us that the present 1981 Farm Bill has resulted in a desperate situation for the farm economy. The basic problem is the fact there is NO PROFIT.

In USDA Bulletin No. [illegible], dated March, 1985, net farm income and asset values from 1940-1983 are shown (adjusted to 1967 dollars). [illegible]

YEAR(S)	NET INCOME	RETURN ON ASSETS
1940-1949	[illegible] Billion Dollars	[illegible] %
1950-1959	[illegible] Billion Dollars	[illegible] %
1960-1969	[illegible] Billion Dollars	[illegible] %
1970-1979	[illegible] Billion Dollars	[illegible] %
1980	[illegible] Billion Dollars	[illegible] %
1981	[illegible] Billion Dollars	[illegible] %
1982	[illegible] Billion Dollars	[illegible] %
1983	[illegible] Billion Dollars	[illegible] %

Does this not explain why we have a farm crisis? From 1940 to 1983, FARM INCOME WENT DOWN [illegible] and INVESTMENT IN ASSETS WENT UP [illegible] when adjusted to 1967 dollars. Incomes declined over these years even though we have had large increases in exports and production.

On March 7, 1985, Senate hearings for the 1985 Farm Bill began. Agriculture Secretary John Block conceded that he could not name a farm group or person who agreed fully with the White House proposal, with its free market orientation. Block also agreed that the administration's proposal would reduce farm income over the next several years, promising that by the end of the decade farmers would prosper when we become more competitive in export markets.

However, a Department of Agriculture tabulation accompanying Secretary Block indicated that prices for corn and other feed grains would not be much higher in 1991 than now. In the absence of traditional set-aside and price support programs, commodity prices would fall, with corn dropping to $[illegible] a bushel by 1986-87 and soybeans to $5.[illegible]. This compares with support prices of $2.55 for corn and $5.[illegible] for soybeans this year. (7)

Agriculture is already undergoing an agonizing readjustment period. To impose a second readjustment on top of that, to reduce price supports and income subsidies while agriculture is already in its biggest readjustment since the Depression, would be catastrophic with the most vulnerable victim being the structure of the family farm. We must ask ourselves, how many of our families will still be around to enjoy the administration's "promised land" in 1991?

The only way we are going to get a fair profit back into Agriculture is to get supply in line with demand. This could be accomplished through MANDATORY PRODUCTION CONTROLS, HIGHER LOAN RATES AND A GRAIN RESERVE PROGRAM WITH THE LOANS BEING REPAID TO GOVERNMENT WITH INTEREST. This program would be the LEAST COST TO THE GOVERNMENT, as the only expense would be administering the program. In recent history, we have tried to get demand in line with supply and as is obvious, IT HAS NOT WORKED. We cannot name another industry that does not match supply with demand. A PARITY PROGRAM would allow for a PROFIT IN AGRICULTURE. This must be done now, not five years down the road, for then it will be too late for a large number of some of this nation's best farmers who are struggling for the survival of their way of life.

The American public is spending the smallest percent of their income on food in history. Why must this be so when the farmer's cost of production has continued to increase? With the increase in food cost needed to maintain a fair farm price, U.S. food costs would still be far below those of any other country in the world.

The Food and Agriculture Policy Research Institute (FAPRI) Report (8) prepared by the University of Missouri and Iowa State University analyzes four farm programs:

1. BASIC CONTINUATION OF THE 1981 FARM BILL
    See Appendix B: "B": net income near present level
2. MARKET OPTION WITH MINIMUM GOVERNMENT INTERVENTION
    See Appendix B: "M": 30% reduction of farm income
3. EXPANDED EXPORT OPTION
    See Appendix B: "E": 1-3% increase over the 1981 base
4. 80% PARITY WITH MARKETING QUOTAS
    See Appendix B: "P": 196% net farm income increase

Upon looking at the projections of the farm policy options in the FAPRI Report, it is clear that the only option allowing for the continuation of the farming sector is number 4 "P" with its Controlled Production and Parity Options. We must have a reasonable profit in agriculture.

Research done by Iowa State University reveals that when Net Farm Income increases, the main streets of Rural America share in the benefits. (9) We are witnessing the inverse of this theory in my home town of Bedford. A net loss of 22 businesses in the past three years is a clear reflection of a suffering agriculture economy - an agricultural economy suffering from a NO PROFIT MALIGNANCY - a malignancy which we realize is within the power of our policy makers to safely remove or treat.

My wife and I operate a medium sized farm which grosses $125,000 - $175,000 per year. I am the only full time worker. This farm size is in a group of 12% of our nation's total farms, and is responsible for 69% of total U.S. sales. (10) It is these medium sized farms that are having some of the most severe difficulty under present economic policies. We purchased the majority of our land between the years of 1956 and 1972. Our land was purchased before the large increase in land prices, unlike the image fostered by those wishing to camouflage a severe agricultural economic problem by focusing on a FEW speculative agriculture investments made by a FEW farm entrepreneurs.

We have not invested in a lot of new machinery or facilities. Due to low commodity prices, record high real interest rates (cost of money minus inflation rates) and some unfavorable weather conditions, our net worth has decreased nearly 70% in the past 4 years. Just one or two more years with this rate of decline will find us insolvent. In 1977, I was proud to be named as one of Iowa's five Master Farmers. This title was representative of good management practices. and now, nine years later we struggle to reverse the direction of our farm toward insolvency --a direction not caused by poor management, as many will have you believe, but a direction resulting from the Federal Reserve's tight monetary policy, the 1981 Tax Bill's resulting massive budget deficits, and the 1981 Farm Bill.

We are not the exception, we are representative of rural America. We must have a profit in Agriculture, or the way we know farming and the way you know farming will cease.

It will not be in the public's best interest to have corporate agriculture involved in the total food chain. Large corporations will not do what is in the best interest of the public - as their conservation priorities have shown. Corporate agriculture has not been interested in protecting one of the nation's greatest assets, a quality top soil that is the envy of the world. I would welcome the opportunity of showing you the Taylor County farms which are owned by absentee land owners and corporations. On such farms, you would witness the washing away of topsoil at the rate of 20 tons per acre each year. Are such practices in the best interest of the public?

Land is a great source of new wealth for our national economy. In order for us to create new wealth, the value of the product has to be greater than the input cost.

In the interest of the National Economy and Public Welfare, it is necessary to have a profit in agriculture and to sustain SCS and the RC&D, so that our descendents will have an ample food supply, and efficient development of resources.

I am a steward of the soil. It has been my goal in life to leave the soil as good or better than it was when I found it. I, and the farmers I represent, cannot do it alone--especially if there continues to be no profit in our industry.

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2. Aust, Erwin D., Iowa Soil Conservation Service Area 7 Conservationist, reply to a letter requesting information concerning the results of past funding as well as the expected effects of proposed federal budget cuts, March, 1985, p. 1.

3. Ibid .

4. Hilger, Dennis, Southern Iowa RC&D Coordinator, statement made at a meeting of Congressional staff members in Centerville, Iowa, April 7, 1985.

5. Aust, p. 2.

6. The Current Financial Condition of Farmers and Farm Lenders , Washington, D. C., United States Department of Agriculture, Bulletin No. 490, March, 1985, p. 5.

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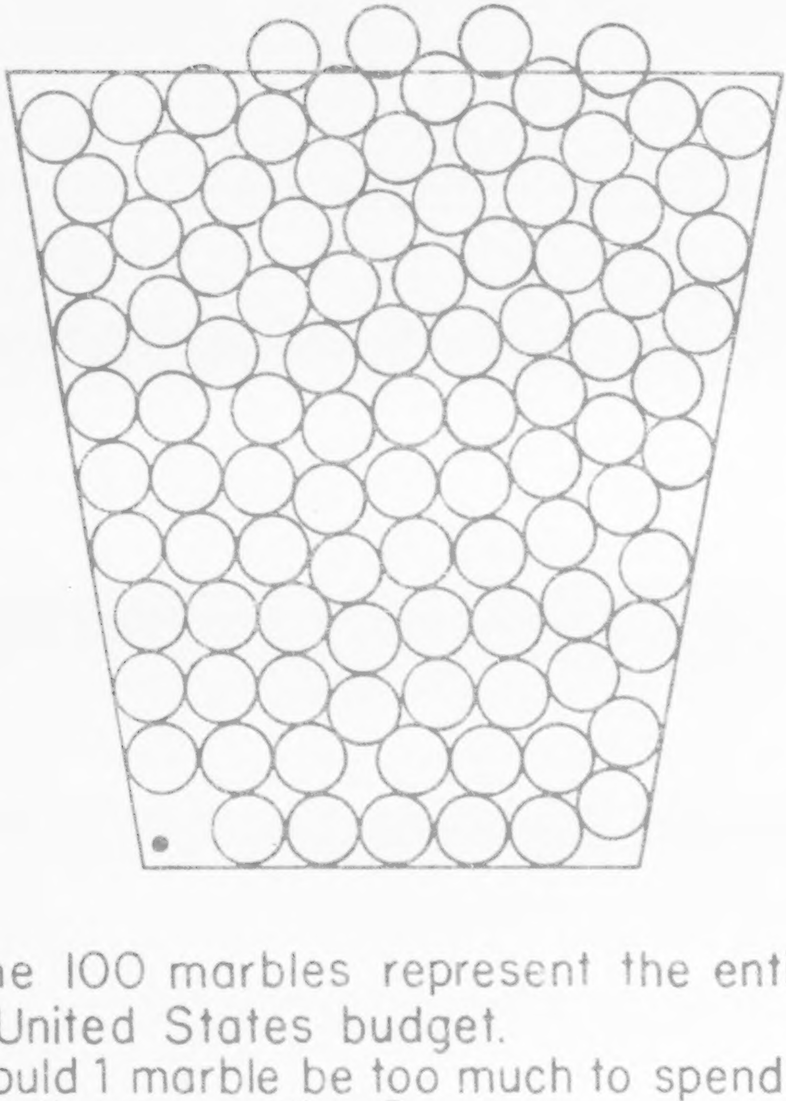
8. Brandt, Jon, S. R. Johnson, William H. Meyers, Abner W. Womack, and Robert E. Young II, "Options for the 1985 Farm Bill: An Analysis and Evaluation", FAPRI (Food and Agricultural Policy Research Institute) Staff Report, University of Missouri, Columbia and Iowa State University, FAPRI #1-85, p. 26.

9. Ginder, Roger, Extension Economist, Iowa State University, and Paul Lasley, Extension Sociologist, Iowa State University, "Impacts of Alternative Policies on Agri-businesses and Rural Communities", presented at the Ag Policy Seminars Program, Red Oak, Iowa, December 13-14, 1984, Handout, p. 31.

10. Ibid , p. 8-9.

APPENDIX A

Where soil conservation fits in the budget.



The 100 marbles represent the entire United States budget.

Would 1 marble be too much to spend on soil conservation?

Not 1/10 of 1 marble, only a B-B, is now being spent on such programs.

APPENDIX B

FAPRI POLICY PROJECTIONS, FARM INCOME AND GOVERNMENT COST: THE 1981 FARM PROGRAM CONTINUATION (B), THE MARKET OPTION (M), THE EXPANDED EXPORTS OPTION WITH BASELINE PARAMETERS (E), AND 80 PERCENT PARITY PRICES WITH MARKETING QUOTAS (P)

Year	Program Option	1983	1984	1985	1986	1987	1988	1989	1990
Total Farm Cash Receipts	B	138.72	143.13	150.75	156.08	159.42	165.07	169.42	175.10
	M	--	--	--	155.56	156.40	159.78	164.25	171.93
	E	--	--	--	156.72	160.57	166.25	171.18	177.76
	P	--	--	--	157.68	200.45	202.99	211.37	220.38
Direct Government Payments	B	9.29	8.70	5.12	5.73	4.76	3.34	3.29	4.28
	M	--	--	--	0.00	0.00	0.00	0.00	0.00
	E	--	--	--	5.37	3.80	3.18	2.31	3.67
	P	--	--	--	4.48	0.00	0.00	0.00	0.00
Realized Gross Farm Income	B	163.16	167.93	172.74	179.58	182.61	187.68	192.88	200.51
	M	--	--	--	173.36	175.02	179.24	184.63	193.16
	E	--	--	--	179.86	182.84	188.74	193.78	202.72
	P	--	--	--	178.76	217.75	220.89	230.07	241.51
Net Farm Income	B	16.10	31.81	25.73	25.64	24.58	20.04	22.39	25.66
	M	--	--	--	18.08	16.81	14.67	16.60	15.63
	E	--	--	--	26.02	24.90	21.01	22.75	26.97
	P	--	--	--	45.83	74.03	74.32	75.31	81.15
Net Farm Income (1972$)	B	7.48	14.25	11.03	10.41	9.57	7.44	7.89	8.54
	M	--	--	--	7.34	6.54	5.44	5.85	5.20
	E	--	--	--	10.57	9.69	7.80	8.02	8.98
	P	--	--	--	18.61	28.82	27.58	26.54	27.02

APPENDIX C

VALUE OF OUTPUT

	1986			1989		
	A	B	C	A	B	C
1. Agriculture	9,498.11	9,279.68	12,131.28	10,091.3	9,957.66	13,401.2
2. Ag/Bus	1,062.6	1,038.1	895.7	1,128.9	1,114.0	989.4
3. Retail	895.5	874.9	1,143.8	951.5	938.8	1,263.4
4. Service	2,791.6	2,727.3	3,565.5	2,965.0	2,926.6	3,938.4
	14,247.8	13,920.1	17,736.3	15,137.7	14,937.1	19,592.4

A. 1981 Farm Program Continuation
B. Market Option
C. 80% Parity Prices with Marketing Quotas

NATIONAL PORK PRODUCERS COUNCIL

STATEMENT OF DAVID CUMMINGS, REPRESENTATIVE

ACCOMPANIED BY DR. VAN HOUWELING

Senator BURDICK. The next witness is David Cummings, the representative from the National Pork Producers Council.

Mr. CUMMINGS. Thank you, Mr. Chairman.

I am David Cummings, and I have accompanying me this morning, Dr. Van Houweling.

I am a pork producer from Yazoo County, MS, and a member of the Board of Directors of the National Pork Producers Council, the largest single commodity producer in the Nation, roughly representing over 315,000 farm families.

I appreciate this opportunity to speak with you on the appropriations for the Federal agencies under your domain with regard to animal agriculture.

One of the major external factors affecting pork production profitability is the policy of the Federal Government as it impacts on a producer's cost of doing business and a producer's ability to effectively market products. It is only natural that one of our organization's key priority objectives for 1985 is to actively take part in farm policy objectives concerning agriculture research funding as well as the inspection and monitoring programs.

In our written testimony which we have submitted to the subcommittee, we focus in some detail on specific appropriation funding and express our views and concerns on each.

In the brief time allotted to me here, I will only summarize some of our comments. One of the primary concerns of our pork producers is the lack of Federal research support for pork production, specifically, and animal agriculture in general.

In 1984, cash receipts from livestock totaled $70.7 billion and cash receipts from crops totaled $68.7 billion. In contrast, in fiscal 1986, USDA appropriations for ARS research for livestock production is scheduled to receive $88 million, and plant production research is scheduled to receive $180.5 million. Consumers are the ultimate beneficiaries of agricultural research through lower prices paid for efficiently produced products. Animal agriculture showed a very high rate of return on investment, with swine research leading this list of high rate of returns.

It is, therefore, difficult for our producers to understand why there is such a disparity in the funds made available for animal and plant agriculture. The serious cutbacks in animal health research funding that will result from fiscal year 1986 budget projections involving the Cooperative State Research Service is extremely disappointing.

Of the total reduction of $39 million in CSRS, almost one-third is in the animal health research funding. If these projections are correct, we will see a reduction of $50 to $60 million in State and Federal funding in fiscal 1986. Although the funds for ARS have remained almost constant, the increased cost of operation causes a decrease of almost 5 percent annually in scientific investigation.

For the ARS budget, this translates to almost a $25 million decrease in scientific endeavor every year. At a time when pork producers, along with others in the agricultural sector, are facing the greatest economic stresses since the depression, the magnitude of this cut in animal health research funding is, in our view, inappropriate, and ill-advised.

We are equally concerned about the proposed cut in Federal Extension Service funding. This agency is now deeply involved in the effort to assist producers caught in the current economic squeeze in the agricultural sector. This is not the time to cut $1 million from the Extension Service. This project offers special assistance in financial management.

For several years now, the Federal Extension Service has been working on a project known as the Residue Avoidance Program. A great deal of helpful information has been developed under this program in areas of animal drug and chemical residue monitoring, testing, and control. A farm residue/animal residue data base has been established in cooperation with five land grant colleges, but the data base is not readily available to the computer with access to the National Agricultural Library. We urge the continuation of funding for complete development of this data base in computerized form that is accessible from the National Agricultural Library.

We believe the proposal to initiate user fees to collect the cost of the Animal and Plant Health Inspection Service is unwise and unjustified in that this is a Federal requirement of all producers whose products are shipped in interstate commerce. We are equally opposed to the imposition of user fees for the Food Safety and Inspection Service proposed for meat plants. This Inspection Service provides for the protection of the welfare of the consumer and should not be taxed to the users.

Currently, the Food and Drug Administration is attempting to decide whether the available scientific evidence warrants that a limitation will remain on penicillin and tetracycline in lifestock feed. Clearly, scientific documentation of imminent threat to public health has not been presented. On the contrary, the evidence indicates that the feeding of antibiotics in hog feed at low levels may be holding some transmittable diseases in check. We hope the subcommittee will urge the FDA to proceed with extreme caution in this matter and not permit undocumented speculation to develop regulations. We are submitting for your review the testimony of our witnesses provided during a recent FDA hearing during this highly publicized time.

I thank you for the opportunity to present the views of the National Pork Producers Council on these important matters.

We would be glad to answer any questions you might have.

Senator BURDICK. Thank you very much.

I note with interest your testimony on the use of antibiotics in animal feed. If the FDA recommends and Secretary Heckler agrees to ban the use of penicillin and tetracyclines in animal feeds, do you know of any possible substitutes the producers might use?

Mr. CUMMINGS. That is one of the questions we have raised. Certainly, we do have a few alternatives along those lines, but as far as the cost of production, it is going to kick that up at a time when we are already hurting badly on that front, sir.

Senator BURDICK. Do you think looking for and trying to find substitutes will be a very costly process? Is that your testimony?

Mr. CUMMINGS. Yes, sir.

Senator BURDICK. Thank you.

Mr. CUMMINGS. Thank you very much.

[Mr. Cummings' prepared statement follows:]

STATEMENT OF DAVID CUMMINGS

We appreciate this opportunity to share with the Agriculture Appropriations Subcommittee our positions on the fiscal 1986 federal budgets for the agencies under your jurisdiction.

The National Pork Producers Council (NPPC) is the largest commodity organization in the nation with an identified membership, representing 315,000 farm families.

One of the major external factors affecting pork production profitability is the policy of the federal government as it impacts upon a producer's cost of doing business and a producer's ability to effectively market products. It is only natural then that one of the key objectives for 1985, given high priority and articulated by NPPC's Government Relations Policy Development Group is to "develop guidelines and actively participate in farm policy debate concerning agriculture research funding and inspection and monitoring programs.

We want to focus this Subcommittee's attention upon specific agency appropriation funding and express our concerns for each.

Agricultural Research Service (ARS). The NPPC, along with other representatives of animal agriculture, continue to be dismayed with the disparity in research funding in the Agricultural Research Service, for animal production as compared to plant production. For example, in the fiscal year 1986 budget projections, plant production research is scheduled to receive $180.5 million whereas animal production is scheduled to receive only approximately $88 million. At a recent meeting Dr. Terry Kinney, Administrator of the Science and Education section at ARS, indicated, however, that $112 million was either directed for animal production or closely correlated with animal production. Even so, the $68.5 million disparity is extremely disappointing.

It is especially difficult to understand when one realizes that the total income from animal agriculture is equal to or greater than the income from crop and plant production.[1] If one stops to realize that the market for a great deal of the production of feed grain and forage is the animals that are fed these products, the disparity becomes even more apparent.

NPPC believes that the proposed ARS management savings of over $7.0 million is commendable. We believe that the leadership of this agency has exemplified good management, careful cost controls, and strong leadership of the research program. However, with this savings projection, the appropriations for fiscal year 1986 are only about equal to that provided in fiscal year 1985. Unfortunately, equal appropriations do not mean equal amounts of scientific work. Dr. Kinney has reported that overhead costs increase approximately five percent each year, therefore, a flat appropriation results in an actual decrease in scientific endeavor. In an appropriation of the magnitude of that for ARS, this five percent translates into almost $25 million less for scientific investigations. Reductions of this magnitude cannot be absorbed without a significant effect on the programs. Again, Dr. Kinney has indicated that if there are such reductions, it will be necessary for them not only to reduce support of certain programs but also to eliminate other programs entirely.

These flat budgets for the large installations, such as the National Animal Disease Center and the Plum Island Animal Disease Center in New York, where the cost increases are even greater, result in even more serious cuts in the program's activities. The leadership of the Agency is requesting commodity organizations to confer with them in regard to which programs should be reduced or eliminated under the current budgets. Since these are primarily animal health research installations, these reductions are more ominous when one recognizes what is proposed in regard to the Cooperative State Research Service (CSRS) budget.

The Cooperative State Research Service (CSRS). The NPPC is greatly disturbed by the proposed cuts in the animal health research funds under this agency. The Administration proposes not only to cut $5.7 million for section 1433 activities, but also proposes to drop the $7.0 million from the special grants for animal health research. In total, this is an almost $13 million reduction in animal health research funds. If this is combined with the contributions the states make to more than match these programs, NPPC believes that this could amount to a $30 to $40 million reduction in animal health research in the nation. At a time when pork producers are financially distressed, they cannot afford reductions in animal health research which help maintain the efficiency of their production.

We would also point out that this $13 million reduction in the animal health research funds constitutes almost 1/3 of the $38 million budget reduction proposed for CSRS. We, therefore, must urgently request this Subcommittee restore these animal health research funds.

Our comments in regard to equal funding apply as well to the CSRS appropriations. With increased costs and no increase in appropriations, there can only be a reduction in the scientific investigations that are possible with the funds appropriated.

We are pleased to see that the Administraton is continuing to recommend funding for the competitive grants program. We do not, however, believe that these proposed increases compensate for the reduction in the other areas that we discussed.

NPPC was gratified to learn that as the result of the availability of competitive grants research funds, there have been 500 requests for grants for animal science alone in the programs of animal production and biotechnology.

Federal Extension Service (FES). NPPC does not believe this is the time to cut the FES funding. We are well aware of the heavy emphasis this agency has put on assisting producers during the current financial crisis resulting from the disastrous economic conditions in the agriculture community. We must, therefore, urge this Subcommittee not to reduce the funding for the FES as proposed in the Administration's budget. We especially question the proposal to reduce the Smith-Lever 3-D fund of $1.0 million for a special assistance in financial management.

NPPC believes that there is opportunity for increased efficiency in the establishment of national electronic data programs by combining the work of similar states in one effort rather than having each state develop its own system which often results in inefficiences. A good example of the latter is the development of the food animal residue program.

Farm Animal Residue Avoidance Database (FARAD). Five years ago, the USDA requested large increases in their appropriation for animal drug and chemical residue monitoring, testing, and control. The justification for the increases was based upon a need for additional rapid testing and educational activities designed to assist animal producers in how to avoid residues in the food from the animals produced. This led to a transfer of funds from FSIS to the Federal Extension Service for a program known as the Residue Avoidance Program (RAP).

The RAP has been operating for several years with decreasing funds from FSIS. The initial years provided for 35 projects in approximately 30 states which were designed to give producers additional information on how to avoid drug residues in the animals raised for food. These projects have largely been completed and have resulted in a great deal of helpful information for the animal producers.

One of the projects undertaken was the development of FARAD. This was essentially a pilot project involving the cooperative efforts of five of the land grant colleges. The objective was to identify, extract, assemble, review and distribute information on residue avoidance. About 100 chemicals and drugs selected by FSIS as being the greatest source of residue problems had been included in the FARAD. As a result, this information is now available in three sections of the country; from the University of California, University of Illinois, and the University of

Florida. It is available to extension specialists, county agents, research workers, veterinarians and producers.

About $250,000 will be required beginning in fiscal year 1986 to continue the development of data for this residue database, to maintain it and to computerize the information that has been developed so that it will be readily available to computers with access to the National Agriculture Library.

FSIS has not agreed to fund the continuation of FARAD, even though the appropriations for residue detection, testing, monitoring, and enforcement have continued at the higher levels originally requested in the budgets. NPPC would urge this Subcommittee to advise FSIS to make funds available for the continuation and further development of FARAD and to make the data computer accessible from the National Agriculture Library.

Animal and Plant Health Inspection Service (APHIS). NPPC has one concern to express in regard to the proposed budget for this agency. We believe that the proposal to collect the cost of the biologics inspection and licensing program from user fees is unwise and unjustified. This is a program that is required of all producers of these products who ship in interstate commerce. Since it is a federal requirement, and is intended for the benefit of the animal producers, pet animals and companion animals as well as food animals, it is unfair to levy the cost of this program on the producers of these products. Many of these products are only marginally economical to produce, even with the government providing the inspection service. We are also concerned that this will interfere with the movement underway to require those producers of biologics who sell only in one state to be brought under the federal programs. We urge this Subcommittee not to concur in this proposal.

The Food Safety and Inspection Service (FSIS). NPPC has only one comment to make in regard to the appropriation for this agency. We again would oppose the imposition of user fees on the meat plants receiving this service. We believe this has been properly labeled as a "meat tax." Since the inspection service provides for the protection and welfare of the public as a whole, there is no justification for burdening the meat industry with this "tax" for inspection: an inspection that is required for meat companies to remain in business.

We took note of the testimony by Dr. Donald Houston, Administrator of FSIS, given to this Subcommittee, in regard to imported products and FSIS's program of activity. We would, however, like to point out an inconsistency that we have observed in this program during the past year.

Approximately a year ago, the Food and Drug Administration (FDA) took extraordinary measures to keep an antibiotic known as chloramphenicol from being used in animals raised for food production in the United States. We know that this drug is still being used in Canada under veterinarians' prescription and is administered to animals raised for food production. We brought this to the attention of the USDA approximately a year ago and have repeatedly pointed out the possibility of these drug residues in the imported pork and hogs from Canada. Unfortunately, the USDA has not seen fit to take any action in this regard except to "discuss it with the Canadian officials." We have received several assurances during the past few months that Canadian officials were going to take some action in regard to limiting the use of this drug but, as far as we aware, nothing has been forthcoming. We believe that this represents inequitable enforcement of regulations covering imported animal based products as compared to domestic animal based products.

In the previous discussion of the FARAD program we made reference to the fact that the FSIS no longer intends to fund this program. We would hope that this Committee would recommend to the USDA that FSIS continue to support this program with the relatively small amount of money required, approximately $250,000, to keep the program viable and updated.

Food and Drug Administration (FDA). We would like to comment in regard to the testimony of this agency in the antibiotics in animal feed area. After the report of the investigation carried out by the National Center for Disease Control in Atlanta, which was so highly publicized in the media, the NPPC created a special producer task force. The task force spent several days in meetings and attending hearings on this matter. They also conferred with outstanding scientists in the field of epidemology, animal production, and animal health.

It was the conclusion of this special task force that the available scientific evidence does not document any adverse effect on human health from these uses. If there was undeniable scientific evidence of a health hazard from the feeding of antibiotics to livestock, our producers would be the first to discontinue using them. This producer task force also stated that if sound medical evidence is ever developed that indicates that this feeding practice does present a health hazard, pork producers will be the first to voluntarily cease using such antibiotic supplements in feed.

We would like to submit for the record the testimony that our witnesses presented to the hearing held by the FDA on the petition by the National Resources Defense Council.

In this testimony, it was brought out that the feeding of antibiotics to swine, particularly at low levels, may in fact be holding several diseases in check. Such diseases as erysipelas, leptospirosis and anthrax are not occurring as frequently as they did years ago. It may well be that the continued use of these antibiotics are suppressing these diseases which are transmissible directly to human beings, the so-called zoonoses. Our expert witness, Dr. George Beran, also testified to the possible hazard of changing feeding practices and the rations of animals because no one could predict what the ultimate result of this type of change would be. We therefore recommend that this

Subcommittee urge the Agency to proceed with extreme caution in regard to this subject.

This concludes our statement. NPPC appreciates this opportunity to again present its recommendations to this Subcommittee and we would be glad to try and answer any questions you may have.

FOOTNOTE 1

Cash Receipts - Billion Dollars

	1982	1983	1984*	1985*
Crops	74.6	69.5	66.72	69.73
Livestock & Products	70.1	69.2	70.74	70.74

*Estimate of ERS

Value of Production
Millions of Dollars

Crops	1980	1981	1982
Corn	20,571	20,406	19,397
Wheat	9,278	10,225	9,516
Oats	812	954	896
Barley	1,022	1,169	1,089
Rye	43	57	52
Flaxseed	57	52	62
Rice	1,695	2,087	1,856
Cotton	4,561	4,624	3,697
Hay	8,104	9,218	9,549
Soybeans	13,560	13,071	12,480
Sorghum	1,696	2,087	1,856
Tobacco	2,720	3,520	3,498
Nuts	842	796	770
Peanuts	578	1,069	856
Sugar Cane	1,036	682	n/a
Sugar Beats	1,109	804	n/a
Fruits	5,640	5,668	5,592
Vegetables	5,732	6,023	5,574

Millions of Dollars

Livestock & Products	1980	1981	1982
Cattle & Calves	25,365	23,818	22,711
Sheep & Lambs	401	358	351
Hogs	8,846	9,521	10,180
Chickens	4,433	4,835	4,626
Turkeys	1,268	1,247	1,254
Milk	16,890	18,447	18,598
Wool	93	103	72
Mohair	31	35	25
Eggs	3,268	3,671	3,457

Private Land Use: Crops 368,574,000 ac. - Grassland & Cropland Grazed only 662,880,000 ac.

Public Range Land 143,000,000

Total Grazed Acres - 805,000,000

Compiled by Don Williams,
National Cattlemens Association

STATEMENT OF GEORGE BERAN, DVM, PH.D., IOWA STATE UNIVERSITY

We are here today representing the National Pork Producers Council. The NPPC represents the nation's farmers who raise pigs and supply the consumers with pork.

The NPPC, with associated state affiliate pork producer organizations, represents 110,000 farm families. We believe that we represent almost all the commercial pork production in the United States. Some of our members market 50,000 hogs a year. But the majority are mid-sized producers, while others are relatively small farmers who raise only a limited number of pigs each year. We believe, therefore, that NPPC represents the grass roots pig farmers in the United States.

Pork producers are naturally extremely concerned about any human health hazard associated with raising pigs. They are also consumers of pork, and they and their families are around the pigs they raise many hours a day. Any danger there is from feeding practices such as the use of antibiotics in feed which you are considering today is naturally of great concern to our members. I think all agree that the hazard to persons working around the animals is much greater than to consumers. We have not observed any health problems among our members or their employees.

Appearing as the principal witness for the National Pork Producer's Council, at their request,is Dr. George W. Beran. George is a professor in the Department of Veterinary Microbiology and Preventive Medicine in the College of Veterinary Medicine at Iowa State University. Dr. Beran has the D.V.M. degree from Iowa State, and a Ph.D. from the University of Kansas Medical College. He is also a diplomate of the American College of Veterinary Preventive Medicine, and of the American College of Epidemiology. He is a consultant to WHO. He is also a member of two expert committees of WHO. One is the Committee on Bacterial and Viral Zoonoses. The other is the Committee on Rabies. He is a section editor of the CRC Handbook on Viral Zoonoses, and the associate editor of the latest of this series of books, Antibiotics, Sulfonamides, and Public Health, of which Dr. Lester Crawford is a section editor. I think you will agree with me Dr. Beran is well qualified to contribute to the subject of the hearing today. It is my pleasure, therefore, to ask Dr. Beran to proceed with his statement and the NPPC testimony.

It is indeed a privilege to have an opportunity to present this testimony. I will be responding to various issues raised in the NRDC petition requesting immediate suspension on the basis of an imminent human health hazard of approval of the subtherapeutic use of penicillin and the tetracyclines in animal feeds. The first portion of this testimony will deal with the petition philosophy that these antibiotics fed subtherapeutically represent a human health hazard and that there is no health risk occasioned by the immediate removal of these products. Following that portion of the statement, I will utilize statements submitted to me by several other experts in appropriate fields.

The NRDC petition states, "...in 1977, based on numerous studies demonstrating health hazards associated with the subtherapeutic use of penicillin and tetracyclines in animal feeds, the FDA concluded that such use of these antibiotics had not been shown to be safe and proposed to withdraw its approval for such uses.[1] The National Research Council (NRC) Committee to study the Human Health Effects of Subtherapeutic Antibiotic Use in Animal Feeds stated in its summary in 1980 that, "after receiving the evidence, the committee concluded that the postulated hazards to human health from the subtherapeutic use of antimicrobials in animal feeds were neither proven nor disproven. The lack of data linking human illness with this subtherapeutic use must not be equated with proof that the proposed hazards do not exist. The research necessary to establish and measure a definite risk has not been conducted."[2] Now, in 1985, the subtherapeutic feeding of antimicrobial drugs in food animal production is being reevaluated. Epidemiological as well as hypothetical findings in these intervening five years must be considered and findings from the previous thirty years must not be cast aside.

If penicillin and the tetracyclines were to be withdrawn from subtherapeutic feeding in livestock, three basic scenarios of the epidemiological effects this would have on human health may be considered. First, there may be a reduced risk of human disease caused by antibiotic resistant bacteria of animal origin. This is the position of the NRDC petition of immediate withdrawal of subtherapeutic use of penicillin and tetracyclines in food animals on the basis of an imminent hazard to human health. Second, there may be no essential change in human disease which would be attributable to the withdrawal of subtherapeutic antibiotic feeding. This is not a focus of the NRDC petition. Third, there may be an increased risk of human disease which would result from withdrawal of subtherapeutic antibiotic feeding. This is rejected in the NRDC petition.[1]

The NRDC petition projects that 116-264 human deaths in the United States are associated each year with subtherapeutic use of penicillin and tetracyclines.[1] I find this estimate to have insufficient basis at this time. The statement that, "69% of reported Salmonella outbreaks involving antibiotic-resistant strains are traceable to animal sources" is derived from 11 of 16 outbreaks reported by Holmberg, et al.[3] The number of these outbreaks is too small, and the microbiological origin of the resistant plasmids too indefinite to reliably base so definite an epidemiological association. The statement, "since subtherapeutic antibiotic use constitutes most of all antibiotic use for animals, we assume that this use is responsible for virtually all antibiotic resistance among animal bacterial populations",[1] is not substantiated by the epidemiological evidence available.[4, 5] The further statement that the recent Holmberg et al. study indicates that 76.5% of all fatal Salmonella infections are associated with resistant bacteria,[3] is too precise a percentage to have been derived from 13 of 17 human fatalities.

The report of O'Brien et al. presented a new and powerful epidemiological tool for tracing the flow of specific bacterial strains through plasmid profiling.[6] To this, Holmberg et al. added a new and powerful source of epidemiological data in utilizing the slaughtering plants' computerized records on the identification and movement of meat animals from farms of origin through slaughter, fabrication and distribution.[7] These tools hold significant promise for epidemiological identification of the flow of salmonella, campylobacter[8] and probably other bacteria from animals to people. The first reported study, that of Holmberg, et al., which employed these tools very well, must not be evaluated as supporting complete and final conclusions. Excellent as was their human epidemiological traceback, veterinary epidemiological data is insufficient. It appeared that the origin of the resistant strain of Salmonella newport related to or preceded the therapeutic use of antibiotics in the neighboring dairy herd where clinical salmonellosis occurred in calves and not in the beef herd to which the human cases were traced. It is interesting to speculate how the incriminated salmonella got from dairy calves into the beef which is alleged to have served as the source of human exposure, but it is still speculation. Instructive in Holmberg, et al.[7] data was that the number of people exposed to the bacteria must have been large, with clinical disease predominately occurring in persons with intestinal bacterial floras altered by antibiotic therapy taken for other reasons.

Evidence that there would be no marked change in human salmonellosis risk following a withdrawal of subtherapeutic feeding of penicillin and tetracycline merits scrutiny. The reports from the United Kingdom and Netherlands where penicillin and tetracyclines have been restricted from subtherapeutic feeding since 1970 have not indicated significant long term loss of antibiotic resistance. Following the restrictions, the incidence of multiresistant salmonella fluctuated generally downward, but while some resistant phage types disappeared, other new phage types with multiple antibiotic resistance appeared and became endemic.[8, 9, 10, 11] The two large outbreaks of human salmonellosis of animal origin which have been reported in the United Kingdom were both related to therapeutic, not to subtherapeutic use of antibiotics in calves.[12, 13]

In the United States, over half of human salmonellosis has been caused by non-zoonotic serotypes.[4] Most sustained epidemics with human-to-human transmission have been urban and caused by human serotypes.[5] The prevalence of antimicrobial drug resistance has been greater in salmonella isolates from people than from animals.[14]

Data from my laboratory over the past decade as well as from other laboratories has been that the prevalence of salmonella contamination on meat has not changed markedly.[2, 5] In human food-borne salmonella infections, processed products have been more frequently incriminated than fresh, unprocessed products.[5] The extent to which this has resulted from inadequate sanitation of equipment and inadequate caution by personnel, and the extent to which processed but not cured foods serve as better supportive media for salmonella have not been identified.[5]

The withdrawal of penicillin and tetracycline from subtherapeutic feeding would probably have no marked effect on the prevalence of salmonella carrier states in food animals, though the antibiotic resistance patterns of the specific salmonella strains present might vary. Plasmids bearing multiple antibiotic resistance would probably persist. Evidence is that phenotypic characters other than antimicrobial drug resistance ride together on the R-plasmids and that selection pressures other than those exerted by the presence of antibiotics are operational. A probable importance of transposons which have been very inadequately studied is that they insert genetic characters without involving other major changes in the bacteria.[4] An important factor in heterogeneous microbial populations, including those of the enteric flora, is that they exist in rather dynamic balances. Enteric disease is a product of major changes in that dynamic balance. Current therapy of enteric infections in both human and animal patients is based less on antibiotic use than on restoring the normal balance. Over the period 1971-1982, the studies by Atkinson and Lorian on over 10 million bacterial isolates from human patients showed no significant shift in antibiotic resistance patterns.[15] We need such a study on bacterial isolates from food producing and companion animals.

The possibility of increased risk of human disease transmitted directly or indirectly from food animals following withdrawal of penicillin and tetracyclines must be considered. Steele and Beran have highlighted the rarity of agricultural occupational exposure to anthrax, erysipeloid and leptospirosis from cattle and swine and to chlamydiosis from poultry since the advent of subtherapeutic feeding of antibiotics.[2] We have evidence from the work of Langlois, et al., and others that disease problems would increase in food animals, particularly in swine, if effective subtherapeutic antibiotic usage were withdrawn.[16, 17] The extent to which such diseases would involve zoonotic agents awaits further study. What can be identified is that if effective subtherapeutic disease prevention were not available, then greater therapeutic use of antibiotics in food animals would ensue.

In its petition, the NRDC states "the first and simplest alternative is for farmers to substitute other antibiotics for penicillin and tetracycline in animal feeds." I asked Dr. Virgil Hays to react to this statement. Dr. Hays is the Head of the Department of Animal Science at the University of Kentucky. He is the nation's leading expert on antibiotics in livestock feeds, having devoted much of his research tenure to research on the subject. The following represents the response to the question of substitutes as submitted by Dr. Virgil Hays:

"Of continuing concern in the livestock and poultry industries is preventive protection for dysentery, pulmonary infections, liver and jowl abscesses, septicemias, internal and external parasites, and other health problems. Although no panacea has been discovered for all animal health problems, through the years an arsenal of drugs has been developed, tested experimentally, and sifted in practical agriculture, and certain drugs now find extensive usage for specific purposes in livestock and poultry feeding.

The principal factor dictating producer usage is human and animal safety, broad, dependable effectiveness, cost, and required withdrawal times. In the swine industry, for example, numerous antibiotics have growth-promoting and prophylactic value. Most of the alternative compounds, however, are being, or will be, subjected to regulatory scrutiny regarding safety and efficacy. Certain of the newer, more promising drugs are extremely expensive, and it is doubtful that production/development requirements will permit competitive field application. Withdrawal requirements are of prime concern. Producers "top out" animals from finishing pens. Thus, drug withdrawal prior to marketing is a difficult management consideration. Withdrawal times for some of the more effective drugs are incompatible with production systems and management procedures. Drug development and clearance costs are presently astronomical and continue to increase, thus limiting the potential for development of new alternatives. This is a matter of great concern for the future.

The tetracyclines and penicillin have been, and remain, front-runners, with an unparalleled history of development and practical usage. Justification for usage of these antibiotics at low levels in livestock and poultry feeds is predominantly related to improved performance in the absence of clinical diseases. Therapeutic use is secondary. Totally viable alternatives do not exist. The tetracyclines and penicillin have proven their worth as effective prophylactic agents for a broad range of disease-producing organisms of great importance in practical livestock and poultry production.

The bactericidal spectra for virginiamycin, bambermycins, and bacitracin are such that they would not be viable alternatives for many uses of tetracyclines and penicillin. Discussion of alternatives to penicillin and tetracyclines is difficult because of inadequate data on direct comparisons and the indefinite status of other drugs. The use of nitrofurans and arsenicals has been challenged because of residues in animal tissues and their possible carcinogenicity. In the United Kingdom, the use of tylosin for feed-additive purposes was discontinued for a few years because of its cross-resistance with erythromycin, which is used in human medicine. After the United Kingdom joined the Common Market, the use of tylosin as a feed additive was reinstated. Lincomycin, although only recently approved for use, could be criticized on the same basis as tylosin. Bambermycins and virginiamycin have not as yet stood the test of time and extensive use necessary to confirm their continued effectiveness and safety.

It is readily accepted by manufacturers and users of bacitracin, bambermycins and virginiamycin that these antibiotics are less effective than tetracyclines and the approved combinations of tetracyclines, penicillin, and sulfamethazine or sulfathiazole for improving weight gains and feed efficiency in young pigs during the starter-grower stages of swine production.

The best estimates of their relative efficacy can be arrived at by pooling a large number of experiments and assessing the relative improvement in rate and efficiency of gain. Such a summary is presented in Table 1. Note that bambermycins and virginiamycin are only cleared for the finishing stages of production."

Table 1. Improvement in Performance of Young Pigs (Starter Stage of Production) from Including Antibiotic in Diet[1]

		Improvement due to feeding Antibiotic	
Antibiotic	No. experiment	Gain %	Feed/Gain %
Tylosin & tylosin plus sulfamethazine	29	14.7	6.2
Penicillin & penicillin plus streptomycin	47	14.0	7.6
Bacitracin	11	9.7	3.3
Virginiamycin[2]	23	11.0	5.0
Tetracycline & tetracycline plus penicillin plus sulfamethazine	146	17.7	7.6

[1] Bambermycins not included in table as that drug is not recommended for the starter stage of production and very little data available for assessing efficacy. Approved only for growing-finishing stage of production.

[2] Virginiamycin only approved for the finishing stage (120 lb. to market weight).

The NRDC petition goes on to say, "Another method of reducing the incidence of disease in farm animals would involve altering farming practices. Intensive farming practice confines animals. The confinement and crowding creates a great deal of stress for animals and this stress increases the risk of disease. Many farmers who practice this type of animal husbandry may feel that it is necessary to administer subtherapeutic doses of antibiotics. Non-intensively farmed animals are not confined as much and this lessens the stress on the animals. For farms with less intensive animal raising practices and good management, subtherapeutic levels of antibiotics may not be necessary." Dr. Virgil Hays replied as follows:

"This statment just isn't so. Antibiotics were actually developed and put into practical use under just such systems of production in the early 1950's. Modern day swine producers confine their animals in order to keep them out of the freezing weather, snow, mud, extreme hot weather and other environmental extremes that are very stressful to the animal. Also, confinement rearing markedly reduces internal parasitism which preconditions the animals to severe respiratory infections and makes them more vulnerable to disease problems. Response data available demonstrates that the responses to antibiotics were, or are, greater under systems of production similar to those of the preconfinement era than in the modern day, well-managed confinement systems. In addition to an even greater impact of antibiotics under older systems of production, a return to such systems would result in greater labor costs, less efficient utilization of feeds and inputs which would in turn increase cost of production. It is often thought that confinement facilities are very expensive; however, when one includes land costs, fencing costs, portable housing costs and the added expenses for providing feed, water, veterinary services and supervision to pigs in an extensive farming system, the difference in production costs are actually in favor of the intensive systems.

The National Pork Producers Council considers this issue of labor-intensive versus capital-intensive production very important to their livelihoods and also very important to the comfort of the animals. The belief that pork producers have moved in a positive direction over the past few decades by providing more suitable environments for pork production. Because of the importance of this subject at hand, Dr. Stan Curtis was asked to submit his remarks for this statement. Dr. Curtis is a professor at the University of Illinois, and as such, is the nation's leading animal science behaviorist. Dr. Curtis responded as follows:

"Antibiotics in the feed are as effective in promoting the growth of animals in extensive production systems as in intensive systems. Therefore, altering farming practices by reversing the trend to more intensive systems of animal production would not make the practice of feeding antibiotics to growing livestock and poultry less useful to animal industries. This is so for several reasons:

1. We feed animals antibiotics at subtherapeutic rates in order to minimize the effects of subclinical bacterial infections that depress the animals' productive processes. The bacteria involved are enzootic, and their infections are not very contagious, thus spatial density differences between typical extensive production systems and intensive ones are of little or no consequence with respect to the spread of these infections.

2. In general, environmental sanitation affects the frequency of subclinical infections in animals and consequently the magnitude of the animals' responses to antibiotics fed at subtherapeutic rates in terms of growth promotion. But the effect of sanitation levels in this respect are not clear-cut. Animals can carry infections into thoroughly disinfected houses and then proceed to inoculate their new surroundings very quickly, for example. On the other hand, animals sometimes reside in places that would appear to be teeming with potential pathogenic and growth-inhibiting microbes without any apparent effect on either their health or their productive performance. And so it would be overly simplistic to assert that the animal industries find the feeding of antiotics to growing livestock and poultry at subtherapeutic rates a useful practice because the animals' environments on farms are generally unsanitary.

3. The bacteria susceptible to antibiotics fed at subtherapeutic rates tend to be symbiotes of long-standing and thus, in general, they have evolved in ways that make them highly adapted to the host animal and relatively invulnerable to the host's general and specific defense mechanisms. In particular, they tend to be weakly antigenic. Therefore, stress influences on immune events and hence on resistance against these particular bacterial infections, would be expected to be minimal. Moreover, stress can enhance an animal's bacterial defenses in specific cases as well as hamper them.

Finally, the petition states that '(t)his type of farming is relatively low cost, since the farmer need not buy expensive facilities and equipment needed by the confinement farmer.' Cost-effectiveness studies of different animal production systems have generally revealed that intensive systems are more efficient at the bottom line.

The suggestion that reverting animal-production systems to the more extensive approaches used in times past would 'minimize the incidence of illness among farm animals' is a weak one. The nature of infections and diseases prevalent in the two general kinds of production systems do differ, but there is no reason to believe that animals are healthier in the less intensive systems of production."

Finally, in the section of human health risks, the quote from the petition is, "Since the average citizen consumes almost three times the amount of meat per year than the USDA considers necessary to meet nutritional standards, the difference of a few less pounds of meat...cannot be considered a human health risk."

NPPC asked Dr. Burdette Breidenstein to respond to this statement. Dr. Breidenstein is the Director of Research for the National Livestock and Meat Board and has done a great deal of work in calculating actual consumption figures. Dr. Breidenstein's response is as follows:

"Red meat production has historically been reported by the USDA in terms of carcass weight. In order to reflect that production on a per capita basis, the total production has been divided by the total numbers in the civilian population. That per capita production has often been labeled as per capita consumption. That production entity of course contains significant portions of fat and bone that are not consumed as a part of our red meat intake. In addition, it is a raw, uncooked weight. Most nutritionists recommend that Americans eat four to six ounces, on average, each day from the meat group. On a cooked, ingested basis, Americans consume slightly less than four ounces of all red meats per person per day."

We appear as an investigative community to be poised to obtain epidemiological data to answer the issues posed in the NRC report of 1980. On the other hand, if these data already exist, it is hoped that they will be brought out in this hearing and subsequent deliberations. We need to know what we are doing when we propose altering the bacterial floras of food animals.

Gentlemen, I am very pleased to have been allowed this opportunity to present the views of myself and several experts in the field on this subject of such great importance to producers and consumers of products of animal origin. I trust that your agency will give this issue due consideration, and in the end will base your decision on all the scientific evidence available on the subject.

Thank you.

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National Peach Council

STATEMENT OF HENRY CHILES, PEACH GROWER, CROWN ORCHARD CO., BATESVILLE, VA

ACCOMPANIED BY LILLY HOOVER, DIRECTOR, NATIONAL PEACH COUNCIL

Senator BURDICK. We have a witness here who we are going to take out of order because an airplane is waiting for him. We hope the rest of you understand. Henry Chiles, peach grower, Crown Orchard Co., Batesville, VA.

Mr. CHILES. Mr. Chairman, I appreciate the opportunity to be here. I have also with me here, Lilly Hoover, director of the National Peach Council.

I am a farmer from Virginia with a small family farm. I represent also and have been the past president of the National Peach Council which represents the peach industry in the United States. Basically, peaches are grown in 32 States with California, Georgia, South Carolina, New Jersey, and Pennsylvania being the five top States.

I want to thank you all for letting me be here today, and my main concern is that I will be in business in the future so I, hopefully, will be able to come again. You all have given us some very excellent support in the past in the peach industry, and we are in trouble right now. We are going through a siege of devastating weather. It appears in the last 4 years, we have lost pretty much, in general, two out of the four crops. We don't know how to handle our financial situation and also handle or maintain the horticultural value of the trees.

We need some continuing research in order for us to know how best to handle our trees when we have lost the crop. This situation is kind of abnormal to us. We have had a tremendous problem here in the last several years with the lack of crops.

A little map that our associate has just presented to you here shows you this past year's crop losses. If you will notice in the green area there, that that is total crop losses for this past year. In my own operation, we lost a total crop on January 21. We never even had a bloom on the tree this year. Then last Tuesday—we also are raising apples—we lost 75 percent of our apple crop, which kind of relates back to this.

Anyhow, I know you gentlemen work very hard and long hours and we are not objecting to that, but we would wonder if you could help us with some financial aid to continue some research, because our trees are dying, and we are losing the trees, not only the crop, but we are also losing the trees.

The problem is that we had, this year in my particular operation, we had one variety of peaches that came through that freeze. We were 11 degrees below zero, and we had one variety that had maybe 20 or 25 percent of a crop on it. This is the amazing part to me, that with the technology, high technology that we have today, we put people on the moon and in space and so forth; they can work up there with fly swatters doing a lot of things. It looks like to me that some of our research people ought to be smart enough to figure out how that one variety was able to survive that cold and give us some help so we can raise varieties that will stand this colder weather.

One experience I had with frost protection, we have tried for 10 years to build, and I will relate this to you. I thought I was smart enough to lick the weather. I got all excited about the frost control methods out in Washington. I went out into Washington, I saw overhead sprinklers. I planted a lot of land, low-lying land, not good land, thinking I would protect them with ice with water on the trees. The year I did that, I sprayed the whole orchard. We lost. We fired the system up. We were testing the system out that night, 70 acres of barn peach trees. We were testing the system out, which was a sure-fire system in Washington State.

We were predicting a cold snap, and it was at 40 degrees in the afternoon. By 6 o'clock in the afternoon, we iced our trees up, which was an approved method that they were using out there and being successful with it. In my particular locations, we iced those trees.

We lost our whole crop under the ice, including the trees. We got so much ice on them, we broke the trees down and also lost the fruit. The reason for this was, and we didn't find out until several years later, that we happened to be right at the foot of the Blue Ridge Mountains. The cold current coming off the Blue Ridge Mountains, is very dry air, which they don't have in the areas I had researched.

The point in bringing all this to your attention is that I lost my crop and my trees, the reason for that being there had been no research. I was kind of a pioneer. There had been no research. I figured if it was working in the Western States, it would work in my State. The reason I am relating this to you is that this is a situation that happened to me where I lost my crops and my trees.

We are just experiencing tree losses due to economic pressures and also, we just haven't had a crop lately. We were raising a good wholesome product: peaches. I think everybody likes peaches in one form or another. It is a good, healthy product. I have got a son I hope to be able to get into business. He is a third-year college student. He asked me before this week when I came up here; he said, "Dad, what are you going to tell the gentlemen?" I said, "I don't know, I am going to ask for us." He said, "It looks kind of bad for us young folks."

Anyhow, I am giving you the fact that we have had tremendous cash-flow problems. We are constantly harassed. I know this is not in your department, but it gets all over me. We are constantly harassed by legal aid people. We have to use our production dollars—if we are lucky enough to get money to borrow on—to buy lawyers to defend us on just nitpicking things. We are big employers. We use a lot. Our peach industry is very labor intensive. It is about a $400 million industry, which is sizable. We employ lots of people. It is important to the economy of our local areas. We feel like—I know our local storeman asked me the other day, he said, "What am I going to do?" I said, "I don't know. What am I going to do?"

We do provide economy. We feel like we are very labor intensive and use a lot of people. We would just like to thank you all for the help you have given us. I would try to answer any questions. I haven't alluded to my statement, but I hope you all will read it. Everything in there is true, and what I quote is also true. Thank you, sir.

Senator BURDICK. Thank you.

As you know, the good Lord has something to say about weather. You are aware of that, aren't you?

Mr. CHILES. I am very aware of that.

Senator BURDICK. I know it in my country. The thrust of your argument here seems to be that you can develop a hearty variety that might withstand some of the freeze, is that correct?

Mr. CHILES. Yes, sir.

Senator BURDICK. And there is one variety that shows more resistance than any other today, is that right?

Mr. CHILES. Yes, sir. There are varieties that we feel could be developed and, also, the care of our orchards when we at times expect to lose, but we need to know just what care we should be taking. We are borrowing money right now to support a crop out there that has absolutely no economic value.

Senator BURDICK. If research could develop a heartier variety to take a few more degrees of low temperature, that would be helpful to you, wouldn't it?

Mr. CHILES. Yes, sir.

Senator BURDICK. That is one of the things you are asking for?

Mr. CHILES. Yes, sir. And there is research going on in that area. We would like for that to be continued. They are doing a lot of work on short tree life at Clemson. That has been a big help, what you all have done there. We would like to ask for continued support of that project, the short tree life project in Kearneysville, WV. They have been completely frozen out this year. They will have to work on that project, because they don't have others to work on.

Senator BURDICK. That one variety you talked about, has that gone through cold weather like other varieties you had in actual tests?

Mr. CHILES. Yes, sir. This is not the first year that has happened.

Senator BURDICK. And it has shown more resistance to freezing?

Mr. CHILES. Yes, sir.

Senator BURDICK. It seems like there is an opportunity there.

Mr. CHILES. I certainly feel there is. This is something I have known. I have seen it with my own eyes. I feel like there is technology available today, and that we need to capitalize on that. I know we have got the brains to do it if we can just get the money to get the projects together.

Senator BURDICK. Thank you very much.

Mr. CHILES. Thank you, sir.

[Mr. Chiles' prepared statement follows:]

STATEMENT OF HENRY CHILES

BACKGROUND

National Peach Council, a nationwide non-profit association of peach producers and persons in allied industry, is requesting that more attention be given specifically to peach research in the Fiscal Year 1986 Appropriations Bill for USDA's Agricultural Research Service (ARS).

Peaches are grown commercially in 32 states. The first five states in peach production in a normal year are California, South Carolina, Georgia, New Jersey, and Pennsylvania. Peaches are a very important component of the American diet because they are an excellent source of vitamins, low in calories (38), high in fiber and contain no sodium or fat. Fresh peaches are the number one summer fruit and are available May through September.

In 1980 and 1981, peach production was approximately 3 billion pounds and valued at approximately $360 million. The 1982 crop was damaged by early spring freezes and production was 2.3 billion pounds and valued at $303 million. The 1983 crop was also damaged by early spring freezes and production 1.8 billion pounds valued at $258 million. In 1984, the majority of growers had good crops, but received very low prices for their product which put them in serious financial difficulty especially after not having peach crops for two years prior to 1984. So far in 1985 spring frosts in January and April have already caused damage to the peach crop on the east coast.

Something must be done about the continuing economic losses to the grower due to uncontrollable weather factors, and the loss of a nutritional product to the consumer.

More long and short term research is severely needed for the fresh peach industry.

REQUEST

It is understood from previous inquiries to ARS that there are no proposed increases for peach research for Fiscal Year 1986. We are asking for an increase of $600,000 in the Fiscal Year 1986 Appropriations Bill for USDA's Agricultural Research Service specifically to support programs on research relating to development of winter hardy peach varieties, frost control and protection, and post freeze orchard management.

Because agriculture in the United States is a collection of small businesses rather than large companies, no single farm or orchard can afford its own extensive research and development programs such as IBM, Exxon, or DuPont. Therefore, growers depend on state and federal facilities to fill this role of short and long term research needs for our industry.

SPRING FROST AND WINTER INJURY

THE PROBLEM

Peaches are the most widespread tree fruit grown commercially in the United States and they are in trouble throughout their range. Major crop losses in 1982 and 1983 occurred in the southeastern United States due to early spring freezes at an estimated loss of approximately $50 million. New Jersey experienced a loss in 1984 due to spring freezes at an estimated loss of $8 million. Pennsylvania has lost 75% of their crop this year. Other peach producing states that have had a complete wipe out or more than

50% kill are: West Virginia, Maryland, Virginia, North Carolina, Alabama, Tennessee, Arkansas, Missouri, Kentucky, Ohio, Indiana, and Illinois.

Also major losses of peach trees have also been reported from winter injury in states such as New Jersey, Pennsylvania, West Virginia, and Virginia.

Lack of adequate research funds to study and control the factors that lead to loss of a crop from low temperatures is severely affecting the livelihood of peach growers and the supply of fresh market peaches to the consumer.

What management practices does a orchardist continue with an orchard without fruit? Very little if any specific research has been done to help the grower answer this question. After all, with no crop he would want to invest as little as possible and still prepare for a crop the following year.

THE CAUSE

Millions of dollars, annually, are lost throughout the states as the result of frost damage to valuable agricultural crops. Exposure of plant tissue to low temperatures leads to typical frost damage symptoms. The crystallization of water, i.e., ice formation, in the intercellular and intracellular spaces disrupts the normal cell structure. When frost damaged tissue is returned to higher temperatures, it takes on a water soaked appearance, followed by discoloration of the tissue and eventually death.

Generally, the most economically disastrous frosts are those that occur in the spring. Tender, young growth seems to be particularly susceptible to damage resulting from the formation of ice crystals.

Throughout the years, many ingenious methods have been devised to ward off frosts and to prevent its damage. Well known among methods presently available are the use of wind machines, permanent and portable heaters, permanent and portable sprinkler systems, fog generators, helicopters, insulating blankets, insulating foams, antifreeze, etc.

The common goal of all the above methods is to maintain a temperature, surrounding the plant, sufficiently high to prevent ice formation within the tissue. Because of the need for energy and special equipment, most of the above methods require a heavy investment in capital equipment. When the equipment is used only once or twice a year, it becomes difficult to justify.

Severe winter temperatures can also cause stresses to the tree itself which can cause death of the entire tree.

In the fall, peach trees undergo a transition from being very tender to becoming quite cold hardy. This acclimation is affected by environment and the peach's genetic makeup. Ultimate hardiness is cultivar specific. Hardiness will vary with the degree of acclimation or loss of it in spring. It also varies considerably within the plant and its development stage.

WHAT NEEDS TO BE DONE

As neither growers or researchers have learned to control the weather, accelerated research needs to be done to understand and determine: why some varieties freeze and others don't; why some get killed at the same temperature one year and not another; is there any chemical or biological way to protect the fruit from spring frosts; and what kind of orchard management needs to be done to protect and insure that next year I will have a a full crop? At the present time very little is being done to help the grower with these major problems.

We must have research that deals with reducing the cold stresses on trees that are now producing fruit and young trees that will be in production the next few years.

Preliminary observations indicate that there is not enough genetic diversity in peaches to breed and select the type of trees that growers need. Many of the cold hardiness problems and frost damage problems can be solved by the development of hearty, vigorous rootstocks that are resistant to these influences. It is very important that these cold resistant varieties are started in the near future so that they will be producing at the first part of the 21st century.

Because of the high cost of the current methods of frost protection, and with the public's attitude as it relates to pesticides in the environment, we must continually look to less costly and more dependable ways to control frost that kills peaches and winter injury that kills trees.

SUMMARY

The problems of dying trees from winter injury, peaches killed due to spring frosts, and the livelihood of the peach grower threatened by means beyond his control, and depriving the consumer of a nutritious product are national problems. We know that no single individual speaks for national policy concerning peach research. We ask that the requested additional $600,000 be coordinated with on-going and similar federal and/or state projects in order to save money and avoid duplication. We expect ARS to provide funds to individual states as appropriate to support on-going research projects being done in these areas.

We are very supportive of and recommend that the special grants for peach tree short life in South Carolina and Georgia be continued as winter injury is a major factor in peach tree short life problems.

We are aware that projects relating to winter hearty varieties are being done at the facilities at Byron, Georgia and the Appalachian Fruit Research Station in Kearneysville, West Virginia. The Appalachian Fruit Research Station is also investigating factors that cause trees to gain and lose winter hardiness with the different seasons, as well as investigating other means of frost control, and studying what makes the woody tissue of the tree freeze. As the peach crop at the Appalachian Fruit Research Station in Kearneysville, West Virginia was froze out this spring (1985) they will be evaluating and studying post freeze orchard management.

We ask that research in all USDA stations be accelerated because of the seriousness of the situation. Not many peach growers could stand another year or two of crop losses.

We would like to commend the administration for their efforts to reduce federal spending to the very minimum. If there were any way our industry could provide money for this research we would do so, but because of the economic situation of peach growers the past few years that is impossible. We are not asking for a hand-out, we are asking for an investment in American agriculture. Investments have paid handsome dividends in the past and consumers would ultimately benefit by having a continual supply of fresh peaches available over a longer period of time and at reasonable prices.

Before closing, we would like to take this opportunity to thank the Subcommittee for being supportive of peach research programs in the past for both state and ARS facilities.

We ask that you give our request serious consideration. We thank you for allowing us to make this presentation and we will try to answer any questions you may have.

AMERICAN HOME SEWING ASSOCIATION

STATEMENT OF MARTHA PLAGER, EDUCATION MANAGER, SIMPLICITY PATTERN CO.

ACCOMPANIED BY JOHN S. CHWAT, CHWAT/WEIGEND ASSOCIATES AND WASHINGTION REPRESENTATIVE OF THE AMERICAN HOME SEWING ASSOCIATION

Senator BURDICK. Martha Plager, education manager, Simplicity Pattern Co., New York, NY.

Ms. PLAGER. Mr. Chairman and members of the subcommittee, I am Martha Plager, education manager for Simplicity Pattern Co. of New York, NY, and a member of the education committee of the American Home Sewing Association. I am appearing before you today on behalf of the 600 corporate and retail members of the association which represents the entire home sewing industry in the United States.

Today, the sewing industry works in 20,000 retail stores, serving over 40 million home sewing consumers. I am joined here today by our Washington representative, John Chwat.

Mr. Chairman, the American Sewing Association would like to recommend to this subcommittee a new program for inclusion in the U.S. Department of Agriculture's Extension Service Smith-Lever Act, section 3(d) funding category, entitled "Sewing Education."

The industry is mindful of the fact that the administration, in its 1986 fiscal year budget presentation to Congress, recommended total elimination of all specifically targeted section 3(d) activities, including pest management, pesticide clearance, farm safety, food and nutrition education, and urban gardening. However, we believe that this subcommittee should recommend retention of all Smith-Lever section 3(d) programs and that sewing education should be added to the list of USDA targeted activities in this area.

A sewing education program, with the total support and the cooperation of the sewing industry, would provide a basis for increased participation by citizens in the Extension Service activities throughout the United States, in both urban and rural communities. It is probably one of the few agricultural programs involving direct participation by people in urban areas.

At the present time, Mr. Chairman, our industry sponsors specific programs in the 4-H area of the Extension Service. In 1983, 563,000 4-H youth enrolled in clothing programs which are financially supported by the industry. In addition to that, Mr. Chairman, Dr. Greenwood has provided us with a national accomplishment reporting system for selected States which I am sure you have a copy of.

It is involved in its Extension Service with textile and clothing projects for adults in 20 States which report 163,445 participants who produce an estimated net value of products worth $6,700,000 in 1984. If all 50 States had the same type of Extension courses and number of participants, the estimated net value of products made would be $16,032,000.

If all 50 States and their participants were able to sell their sewing products made at home, the total revenue generated for the Federal Government would equal approximately $3,366,400.

While clothing and textiles represent a modest portion of the Extension Service programs, clothing is a basic necessity of life, and therefore, sewing and clothing-related programs take on an economic importance to our society that far exceeds that of other desirable but less fundamental programs.

Sewing skills enable people to lower their expenses for clothing and to obtain income.

I would like to relate, Mr. Chairman, one personal grass-roots testimonial on sewing education by a former 4-H member, Belinda Crews of Watertown, SD, who reported in a survey, "I learned to sew, thanks to 4-H. Today, I'm making a career from that skill. I sold approximately $10,000 of gifts I handmade in 1984."

The importance of providing sewing programs that would serve the needs of targeted population groups such as the unemployed, those on limited incomes, and the handicapped in both rural and urban areas is critical. This type of agricultural-related program has appeal to the constituents of every Member of Congress.

What the industry is suggesting to the Congress, Mr. Chairman, is that a sewing education program has the potential of not just involving 563,000 youth and 163,500 adults, but it can make a major impact on over 2.9 million individuals who work with Extension as volunteers, the 4.4 million 4-H members, and the 112 million individual citizens estimated to be impacted by the Extension Service programs.

Through the cooperative efforts of the Department of Agriculture and the private sector, we envision a sewing education program serving the young and old, the poor and the rich, the rural and the urban. It would be developed with support from the industry in order to expand the number of individuals in our society who want to learn how to sew. The two key goals of this proposed program are for people to recognize the importance of sewing and to gain the skills required to make or repair clothing.

We propose, Mr. Chairman, that the subcommittee appropriate $1,700,000 for fiscal year 1986 for the Sewing Education Program. The appropriation of these funds would be targeted to training existing Extension leaders and volunteers in sewing education. Program development decisions could be implemented at the discretion of the USDA with the cooperation of our industry and the Congress.

In summary, the American Home Sewing Association recommends the following specific points to the subcommittee:

One: Sewing education should be included as a specifically targeted Smith-Lever section 3(d) program within the fiscal year 1986 agriculture appropriation legislation;

Two: Language should be included in the House Agriculture Committee Report which supports the program; and

Three: An authorization for a fiscal year 1986 appropriation should be made for $1,700,000 for the Sewing Education Program.

Thank you.

Senator BURDICK. Thank you.

You recognize that this is a very worthy enterprise, in my opinion.

Ms. PLAGER. Thank you.

Senator BURDICK. You are facing some problems, however. The administration has asked that a good portion of the 3(d) of Smith-Lever be eliminated entirely.

Ms. PLAGER. We recognize that, and we feel that they all should still be continued, included, and to add a new one, particularly the sewing education, because it is self-funding.

Senator BURDICK. Your recommendation is that we add this to the 3(d) program?

Ms. PLAGER. That is correct.

Senator BURDICK. So you see the size of the problem.

Ms. PLAGER. John, would you like to add a word.

Mr. CHWAT. I defer to the subcommittee on the job before it, but the association would like it to have added and would like the subcommittee to add all the other relief.

Senator BURDICK. As I said, I think you have got a fine program. But your biggest problem, I think, is the budget right now.

Mr. CHWAT. Mr. Chairman, just as an aside, the Urban Gardening Program was created in 1976 by Congressman George Brown and former Congressman Fred Richmond as a one-sentence addition to the House Appropriation fiscal year 1977 bill. As you know, urban gardening is a very popular program for the passage of agricultural appropriations and the farm bill legislation. What the industry is suggesting is that it may not happen in this session of Congress, but they wanted the opportunity to present the idea to the subcommittee. We appreciate the opportunity.

Senator BURDICK. Thank you for your good testimony.

[Ms. Plager's prepared statement follows:]

Statement of Martha Plager

Mr. Chairman and members of the Subcommittee, I am Martha Plager, Education Manager of the Simplicity Pattern Company, New York City, and a member of the Education Committee of the American Home Sewing Association. I am appearing before you today on behalf of the 600 corporate and retail members of the association.

Our association is the only organization which represents the entire home sewing industry in the United States, including such areas as fabrics, fibers, patterns, notions, trimmings, sewing machine manufacturing, retailing, wholesaling and publishing. Today the sewing industry generates over $3.5 billion in sales annually through 20,000 retail stores serving over 40 million home sewing consumers. In addition, over 40,000 educators, junior and senior high school teachers, college professors, extension home economists and retail educators are actively engaged in sewing skill development.

All of these businesses and all of these people -- manufacturers, wholesalers, retailers, educators and consumers -- are the beneficiaries of educational programs that have taught sewing skills to millions of Americans and which, in turn, have created job opportunities for them and have enhanced the quality of their family life.

Mr. Chairman, the American Home Sewing Association would like to recommend to this subcommittee a new program for inclusion in the U.S. Department of Agriculture's Extension Service Smith-Lever Act, Section 3(D) funding category entitled "Sewing Education". The industry is mindful of the fact that the Administration, in its Fiscal Year 1986 budget presentation to Congress, recommended total elimination of all specifically targeted Section 3(D) activities including pest management, pesticide clearance, farm safety, food and nutrition education, and urban gardening. However, we believe that this Subcommittee should recommend retention of all Smith-Lever Section 3(D) programs, and that sewing education should be added to the list of USDA-targeted activities in this area.

A sewing education program, with the total support and cooperation of the sewing industry and the members of our association, would provide a basis for increased participation by citizens in Extension Service activities throughout the United States in urban, as well as rural communities. It is probably one of the few agriculture programs that would provide a program for direct participation by people in urban areas.

While clothing and textiles represent a modest portion of the existing 4-H Extension Service education program, clothing is a basic necessity of life, and therefore, sewing and clothing-related programs take on an economic importance to our society that far exceeds that of other desirable but less fundamental programs. Sewing skills enable people to lower their expenses for clothing and to obtain income through utilization of their sewing skills by performing part- or full-time sewing related work. People do not need extensive facilities or equipment to make clothes.

Since sewing is a learned skill, people need to be taught the basic skills necessary to transfer design concepts and fabric into useful products either for their own use or for sale to others. Given the problem of high unemployment in some areas, the importance of providing programs that will serve the special clothing needs of targeted population groups is critical. This type of agricultural-related program has an appeal to constituents of every member in the Congress.

~~At the~~ present time, Mr. Chairman, our industry cooperates through corporate sponsorship of specific programs in the 4-H area. For example, in 1983 over 408,000 4-H students enrolled in clothing courses and over 175,000 participated in a Fashion Revue program. Both of these programs are economically supported by the industry. A list of participants (by state and territory) in these two 4-H programs is included at the end of my remarks. The AHSA and the National 4-H Council have cooperated in the past on these programs and will do so in the future.

What the industry is suggesting to the Congress, Mr. Chairman, is that a sewing education program has the potential of not just involving 563,000 young people. It can also make a major impact on the over 2.9 million individuals working with the Extension as volunteers, the 4.4 million 4-H enrollees in 1984, and the 112 million citizens estimated to be impacted by Extension Service programs. In fact, Mr. Chairman, the American Home Sewing Association feels that this sewing education program should be a part of the Extension Service Smith-Lever Section 3(D) area for several important reasons:

1. The AHSA already works cooperatively with the Extension Service in a variety of areas such as co-sponsorship of our highly effective Sewing by Satellite teleconference;

2. The return for the dollar is enhanced by the impressive number of volunteers who are unpaid, yet are effective influences in their community; and

3. Extension works with a cross section of clientele and has offices and staff in place at the county and state level.

I would like to relate, Mr. Chairman, a personal grassroots testimonial on sewing education by a former 4-H

Massachusetts resident, Miss Kathleen Mullins, who at the age of 16 made the following statement on her 4-H textile and clothing courses:

> "I have been in the Clothing Project for five years and I am really enjoying it. When I first began my clothing project, I used simple patterns to help me in my basic skills, but as I grew older, I began using patterns with complicated and challenging details, and then I found myself showing younger club members basic sewing skills. Sewing has helped me to motivate myself by budgeting my time and setting an hour or two a day away especially for sewing. Sewing has also helped me to figure out problems for myself. Finally, sewing has helped me to look at the finished product with a sense of pride and accomplishment. By sewing some of my clothing, I am saving a great deal of money and gain a sense of self satisfaction. It is truly a skill that will be useful to me for the rest of my life."

A sewing education program can be a cooperative effort between the U.S. Department of Agriculture and the private sector. The type of program we envision would serve young and old, poor and rich, urban and rural. It would be developed with support from the industry in order to expand the number of individuals in our society that want to learn how to sew. Whether it is clothing construction, wardrobe management, care of clothing, fashion, understanding textiles, sewing machine uses or providing up to date information on the technological advances in the sewing industry, the sewing education program could become one of the most popular Extension programs. Two key goals of this proposed program are for people to recognize the importance of sewing and clothing construction and its influence on an individual's life; and to gain the skills required to make or repair clothes.

We propose, Mr. Chairman, that the subcommittee authorize $1.7 million for Fiscal Year 1986 for the Sewing Education Program. The funds could be divided as follows:

$100,000	Administration
900,000	Design and Printing of Resource Materials
700,000	Volunteer Training
$1,700,000	Total

The authorization of these funds would be targeted to training existing Extension leaders and volunteers in sewing education, and not in the creation of new jobs or salaries. Program development decisions on this new Smith-Lever Section 3(D) area could be implemented at the discretion of the U.S. Department of Agriculture with the cooperation of our industry and the Congress.

While sewing education is a popular course for adults and young people, we in the industry have increasingly found that sewing is not being taught regularly in our schools and is being ignored at various state levels in the Vocational Education Consumer and Homemaking Education area. Our association's Teacher Service Division and Education Committee is trying to reverse this trend by providing a communications network with over 40,000 home economics teachers throughout the county and other education-related constituents. However , it is extremely difficult to change the trend of ignoring sewing courses. Soon, a whole generation may be without this important skill.

In summary, the American Home Sewing Association recommends the following specific points to the Subcommittee:

1. "Sewing Education" should be included as a specially targeted Smith-Lever Section 3(D) program within the Fiscal Year 1986 Agriculture Authorization legislation;
2. Language should be included in the House of Agriculture Committee Report which supports the program (similar to that contained in H. Rep. 94-1224, p. 45, for the Fiscal Year 1977 Agriculture Appropriations, which created the urban gardening program); and
3. An authorization for Fiscal Year 1986 appropriation should be made for $1.7 million for the Sewing Education program.

NATIONAL 4-H CLOTHING AWARDS PROGRAM 1983

ALABAMA	23810		
ALASKA	343		
ARIZONA	1284		
ARKANSAS	3234		
LIFORNIA	7619		
COLORADO	4994		
CONNECTICUT	744		
DELAWARE	239		
FLORIDA	7068		
GEORGIA	13169		
HAWAII	1227		
IDAHO	5003		
ILLINOIS	12929		
INDIANA	11813		
IOWA	20601		
KANSAS	8962		
KENTUCKY	16527		
LOUISIANA	19079		
MAINE	1100		
MARYLAND	2969		
MASSACHUSETTS	1356		
MICHIGAN	15716		
MINNESOTA	14053		
MISSISSIPPI	6180		
SSOURI	5403		
NTANA	5865		
NEBRASKA	11722		
NEVADA	1958		
NEW HAMPSHIRE	1499		
NEW JERSEY	2386		
NEW MEXICO	1381		
NEW YORK	27641		
NORTH CAROLINA	5499		
NORTH DAKOTA	5418		
OHIO	18697		
OKLAHOMA	14021		
OREGON	5076		
PENNSYLVANIA	14913		
RHODE ISLAND	201		
SOUTH CAROLINA	4804		
SOUTH DAKOTA	5059		
TENNESSEE	21873		
TEXAS	11255		
UTAH	5028		
VERMONT	880		
RGINIA	5600		
WASHINGTON	5642		
WEST VIRGINIA	3813		
WISCONSIN	15451		
WYOMING	2257		
PUERTO RICO	3006		
DISTRICT OF COLUMBIA	1507		
VIRGIN ISLANDS	19		
GUAM	125		
TOTAL	408,018		

NATIONAL 4-H FASHION REVUE AWARDS PROGRAM 1983

ALABAMA	10238		
ALASKA	148		
ARIZONA	552		
ARKANSAS	1391		
IFORNIA	3276		
COLORADO	2147		
CONNECTICUT	320		
DELAWARE	103		
FLORIDA	3039		
GEORGIA	5663		
HAWAII	528		
IDAHO	2151		
ILLINOIS	5560		
INDIANA	5080		
IOWA	8858		
KANSAS	3854		
KENTUCKY	7107		
LOUISIANA	8204		
MAINE	473		
MARYLAND	1277		
MASSACHUSETTS	583		
MICHIGAN	6758		
MINNESOTA	6043		
MISSISSIPPI	2657		
MISSOURI	2323		
NTANA	2522		
NEBRASKA	5041		
NEVADA	842		
NEW HAMPSHIRE	645		
NEW JERSEY	1026		
NEW MEXICO	594		
NEW YORK	11886		
NORTH CAROLINA	2365		
NORTH DAKOTA	2330		
OHIO	8040		
OKLAHOMA	6029		
OREGON	2183		
PENNSYLVANIA	6413		
RHODE ISLAND	86		
SOUTH CAROLINA	2066		
SOUTH DAKOTA	2175		
TENNESSEE	9405		
TEXAS	4840		
UTAH	2162		
VERMONT	378		
GINIA	2408		
WASHINGTON	2426		
WEST VIRGINIA	1640		
WISCONSIN	6644		
WYOMING	971		
PUERTO RICO	1293		
DISTRICT OF COLUMBIA	648		
VIRGIN ISLANDS	8		
GUAM	54		
TOTAL	175,453		

SELECTED 1984 USDA-NATIONAL ACCOMPLISHMENT REPORTING SYSTEM REPORTS ON EXTENSION SERVICE STATE TEXTILE AND CLOTHING PROJECTS

STATE	TYPE OF EXTENSION COURSE	PARTICIPANTS IN COURSES	ESTIMATED NET VALUE OF PRODUCTS ($)
Kentucky	Clothing Construction and Repair	39,098	2,688,000
Alabama	Clothing Construction	2,304	101,049
Connecticut	Clothing Workshops	112	6,025
Florida	Clothing Construction	8,858	46,773
Georgia	Repair and Alteration	389	3,564
Idaho	Clothing Construction	3,700	80,000
Maryland	Clothing Construction/ Sewing Machine Maintenance	4,417	58,835
Mississippi	Clothing Construction	350	19,000
Missouri	Clothing and Textiles	15,269	1,267,327
Montana	Clothing Construction/ Recycling	891	60,700
Nebraska	Sewing Machine USP and Care	167	5,000
New Jersey	Clothing Construction/Care	1,570	16,434
N. Carolina	Clothing Construction	4,473	77,723

STATE	TYPE OF EXTENSION COURSE	PARTICIPANTS IN COURSES	ESTIMATED NET VALUE OF PRODUCTS ($)
Oklahoma	Clothing Construction and Repair	325	32,297
Puerto Rico	Sewing Techniques	16,498	1,490,000
S. Carolina	Clothing Construction and Repair	7,018	90,106
S. Dakota	Wardrobe Management and Clothing Construction	5,339	255,631
Tennessee	Clothing and Textile	37,757	251,899
Utah	Clothing Construction	73	5,000
Virginia	Clothing and Textiles	14,837	177,444
20 States	TOTAL	163,445	$6,732.807

NOTE:
- If all 50 states had the same type of Extension courses and number of participants, the extimated net value of products made would be $16,832,000:
- If all 50 states and their participants were able to sell their sewing products made at home the total tax revenue generated for the federal government would equal around $3,366,400:

- Source for 20 State NARS reports, U.S.D.A., Extension Service

CHILDREN'S NUTRITION RESEARCH CENTER

STATEMENT OF DR. BUFORD L. NICHOLS, M.D., M.S., SCIENTIFIC DIRECTOR, USDA/ARS CHILDREN'S NUTRITION RESEARCH CENTER, HOUSTON, TX

ACCOMPANIED BY D. GAYLE McNUTT, BAYLOR COLLEGE OF MEDICINE

Senator BURDICK. Our next witness is Buford Nichols, M.D., scientific director, Children's Nutrition Research Center, Houston, TX.

Dr. NICHOLS. I would like to introduce Gayle NcNutt, Baylor College of Medicine.

It is a pleasure to be before this subcommittee again. I want to express my personal appreciation in this field for the leadership of the subcommittee, especially related to the appropriation of $49 million last year for the construction of the new building. I have asked Mr. McNutt to bring some pictures of this building. I think you will find them to be very interesting.

As you know, this is one of the five human nutrition centers in the ARS. This is the only one which does investigate the nutrition needs of women and children.

The building is on schedule and under budget. The ground-breaking is May 23. It basically has two components, human and animal investigation on the lower floors and laboratory work on the upper floors. The next picture is an illustration of the lobby, which is a rendition of a combined history of nutrition and agricultural research. The statue here is of Von Leibig, the founder of organic chemistry, organic research, and nutritional research. The other statue is Gil Horton, founder of the Food Institute of the United States and one of the founders of Baylor University.

The next picture shows the host part of the whole facility, and that is the Human Investigation Suite. Here we have 12 small apartments in which families can bring their young infants for investigation. These volunteers here serve without pay. The facility has to be attractive enough to secure their cooperation so we can detect the nutritional needs of the normal population.

We are very pleased for this opportunity, and we do thank the subcommittee for its continuing leadership. We do propose an increased operation budget for the next year so that by the time we reach 1990, we will have the laboratory in full 100 percent and activity. We are proposing an increase of $1.5 million next year if this committee has the opportunity to help us develop the programs that are consistent with this important ARS submission.

Thank you very much for the opportunity to appear. I would be happy to answer any questions.

Senator BURDICK. Thank you.

How does your request square with the budget numbers at the present time?

Dr. NICHOLS. The President's budget request did not ask for any cuts in our program.

Senator BURDICK. No cuts?

Dr. NICHOLS. No cuts.

Senator BURDICK. Thank you very much.

Dr. NICHOLS. Thank you very much.

[Dr. Nichols' prepared statement follows:]

STATEMENT OF BUFORD L. NICHOLS, JR., M.D.

On behalf of the investigators of the Children's Nutrition Research Center (CNRC), I wish to thank this Subcommittee for its leadership and support. We especially appreciate the confidence that is reflected in the appropriation last year of $49,000,000 for the construction of the permanent facility for the CNRC.

I am pleased to share with you the excitement and the challenge felt by the twenty investigators of the Center as we plan for the new facility.

The CNRC is the fifth human nutrition center established by the U. S. Department of Agriculture. It is the only Center dedicated to the scientific study of the nutritional needs of pregnant and lactating women, as well as those of infants and children. The CNRC is managed through a Cooperative Agreement between the USDA/ARS and Baylor College of Medicine, one of the ten leading health research institutions in the United States.

Building Program

The new Center facility (see attached photograph) will be an eleven-story building on a one-acre site in the Texas Medical Center adjacent to Texas Children's Hospital. Parking space for approximately 180 vehicles will be located on three underground levels. The building will contain approximately 200,000 gross square feet, with 123,000 net square feet of space to fulfill the following requirements:

1. **RESEARCH LABORATORIES**

   Seven floors contain laboratories for studies in nutrition biochemistry, body composition, and diet preparation. There also is a laboratory for the development of stable isotope methodologies and a greenhouse for incorporating stable isotopes into plant foods.

2. **METABOLIC STUDIES**

   Twelve rooms provide space for research volunteers (children and their parents) to live for varying periods of time during nutritional studies. Special diets for consumption by both live-in and live-at-home volunteers are prepared in a research kitchen on the same floor. Calorimeters are used to measure energy expenditure of the volunteers.

3. **ANIMAL CARE**

   Animal care facilities for four species of animals are designed in accordance with ARS/NIH guidelines. The animals will be used for nutrition studies.

4. **PUBLIC AND ADMINISTRATIVE OFFICES**

   Administrative offices, building management offices, storage space and a lecture hall for approximately 200 people are provided.

The CNRC will be connected to Texas Children's Hospital by a tunnel to facilitate movement of supplies, personnel, and research subjects between the two institutions. The structure will be reinforced concrete, with the exterior in glass and granite. We are confident that the facility will be completed within the appropriated budget of $49,000,000. Construction will start May 3, 1985, and we expect to occupy the building in September 1987.

Program Development

The CNRC, now in its seventh year of scientific work operates on a current budget of 3.2 million dollars. Funds appropriated for the Center have been relatively stable, with minor adjustments for inflation, for the last six fiscal years. During this time, major programs on the nutritional needs of infants and lactating women have been started and scientists of the highest quality have been recruited. Funds are now required to provide technical support personnel for these scientists. An increase of 1.8 million dollars is needed to reach the scientific potential of existing programs.

One additional program is required to fulfill the Center's current mission as defined by the Council of Scientific Advisors. An annual appropriation of 1.5 million dollars is needed for a **Pregnancy Program** to study nutritional needs of pregnant women. The **Pregnancy Program** will complete the Center's initial commitment to maternal and infant nutrition research from conception through infancy.

The CNRC now operates in rented facilities and the programs are restricted to minimum space. The programs for which funding is requested in FY 1986 can be accommodated within the rental space now available.

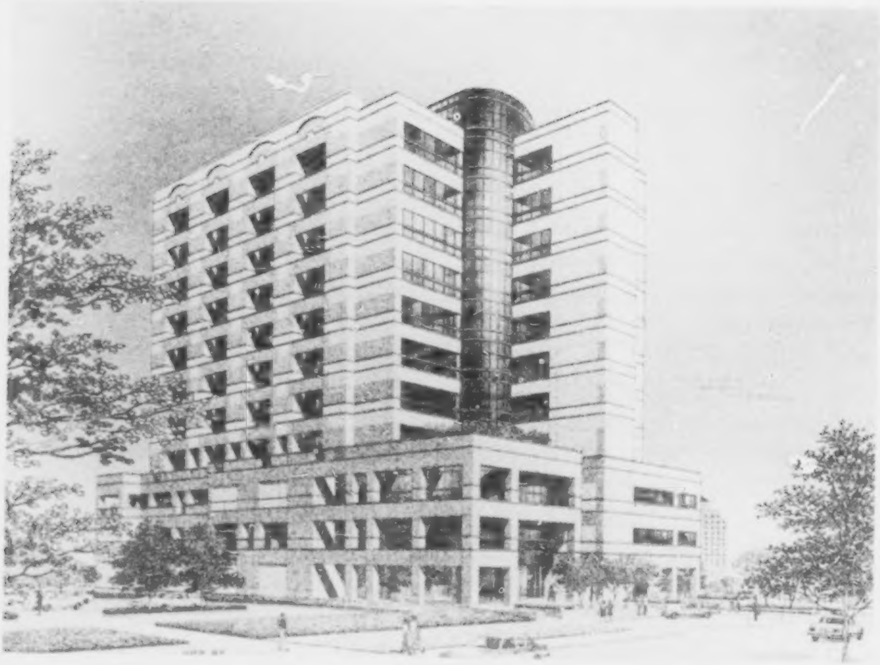
A carefully planned expansion of the research programs is proposed to coincide with the construction of the new building.

With the addition of the **Nutrition and Pregnancy Program** in FY 1986 and a **Brain and Behavior Program** in FY 1987, it is projected that there will be 75% utilization of the new facility when it opens, and 100% utilization the next year. Based on the suggested incremental increases in the operational budget, the program will be fully developed by 1990.

Fiscal Year 1986 Budget Requests

Operating:

Existing Programs	$5,000,000.00
Establishing Pregnancy Program	$1,500,000.00
TOTAL REQUEST:	**$6,500,000.00**



Artistic rendering of the new USDA/ARS Children's Nutrition Research Center (CNRC). The view is from the Texas Children's Hospital (TCH) toward the southwest corner of the Texas Medical Center. The CNRC is connected to TCH by a tunnel running under Bates Street, in the foreground.

TEXAS TECH UNIVERSITY, COLLEGE OF AGRICULTURAL SCIENCES

STATEMENT OF DR. SAM E. CURL, DEAN, COLLEGE OF AGRICULTURAL SCIENCES, TEXAS TECH UNIVERSITY, LUBBOCK, TX

ACCOMPANIED BY DR. ROBERT L. DEAN, ASSOCIATE DEAN

Senator BURDICK. The next witness will be Dr. Sam Curl, dean of the College of Agricultural Sciences, Texas Tech University, Lubbock, TX.

They grow some wheat at Lubbock, don't they?

Dr. CURL. Yes, sir, quite a lot.

Senator BURDICK. Soft wheat, winter wheat?

Dr. CURL. Yes, sir.

Mr. Chairman and members of the committee, I am Sam Curl, dean of the College of Agricultural Sciences at Texas Tech University. With me is Dr. Robert L. Dean, an associate dean. We are most appreciative for the opportunity to appear before the committee today on behalf of urgently needed research in the area of plant stress and water conservation.

The background setting for the problem addressed by the cooperative research efforts, which have been undertaken jointly by the USDA, ARS, Texas Tech University, and the Texas Tech Agricultural Experiment Station, is found in Senate Document 59, the feasibility study conducted by the Science and Education Administration of USDA in 1977, and the statement of Texas Tech University submitted for the record before this committee on March 26, 1979.

The Southern Great Plains is one of the most intensely developed and highly productive agricultural regions in the United States. Virtually all of the water presently used to support this agriculture comes from a rapidly declining and virtually nonrechargeable ground water reservoir, the vast Ogalla aquifer. Estimates of the future reliance of the water supply in this formation vary, but all agree that it is final. Many wells in the southern part of the formation are already going dry.

In addition, the escalating cost of energy required to lift the water in a number of areas would become prohibitive. Indeed, the need is urgent for genetically crop improved varieties stressing more efficient stresses in tolerance and improved water use mechanisms and for the development of cultural practices for maximizing water use efficiency. Our cooperative research program focuses on these objectives.

The indepth statement includes an updated report of the progress of research planting and program activities to date, and has been submitted for the record. Our past testimony has presented a comprehensive assessment of the problem and recommendations for what we firmly believe is a viable and cost-effective Federal-State cooperative research strategy for dealing with this complex agricultural problem facing the southern Great Plains in the semiarid Southwest. This committee has shown a concern and interest in the problems we have brought to your attention.

In fiscal year 1977, Congress appropriated $100,000 to initiate a feasibility study to determine the most appropriate program and location for the Plant Stress and Water Conservation Laboratory initially identified in Senate Document 59. That feasibility study was delivered to the Congress in March 1978.

In fiscal year 1979, Congress appropriated $80,000 to initiate planning for the research program and a proposed facility in cooperation with Texas Tech University in Lubbock. In fiscal year 1983, Congress appropriated $500,000 to complete planning for the laboratory.

The research program in Texas has plans, and specifications for the lab have been completed. A cooperative USDA/ARS research unit is in place in Lubbock, occupying temporary quarters on the campus of Texas Tech University and at the Texas Agricultural Experiment site north of Lubbock.

In fiscal year 1980, Congress appropriated $200,000 to initiate basic research on the problem. Congress appropriated $400,000 on the research program in fiscal year 1981, $450,000 for fiscal year 1982, $750,000 for fiscal year 1983, $750,000 for fiscal year 1984, and $900,000 for fiscal year 1985.

On behalf of all who are working on the problem, we wish to express our appreciation for your past support which has allowed us to get the research program off the ground and moving in a positive direction.

The drought of 1980 and its devastating impact on food and fiber production stands as a very real and grave illustration of a future scenario which would be unavoidable in the absence of the improved plant materials and agricultural methods which can be developed through this cooperative research. Because the Great Plains region contributes very heavily to the total U.S. food and fiber supply, the maintenance of its viability is of obvious importance, not only from a domestic point of view, but also with regard to the great volume of U.S. agricultural exports sold on the international market. Our society cannot afford to permit this tremendously productive agricultural region to produce at anything less than its full potential.

The Cooperative Research Program, now in its sixth year of existence, is necessarily limited in scope. What is needed are additional scientific facilities, equipment, and disciplinary specialists. The current level of research activity can be expanded, to some extent, using limited space and resources in the development at Texas Tech University and the Texas Agricultural Experiment Station. No major effort can be launched, however, without a substantial increase in the research program funding and the availability of the highly specialized facilities to plan for the proposed laboratory.

We believe this program and facility should be of top priority. This is not a program dealing with a single crop or a problem of local proportion. It represents, rather, a comprehensive investment in the future, which will help to avert an economic disaster throughout a portion of over six States wherein a large and very significant portion of our present agricultural wealth is found.

We respectfully request the committee to increase the level of fiscal year 1986 funding for the Cooperative Research Fund and Plant Stress

Water Conservation in Lubbock, TX, in the amount of $1 million over the current budget allocation for fiscal year 1985.

This will bring total research program funding for fiscal year 1986 to $1,900,000. We further request the committee to authorize funding in the amount of $22 million to construct a proposed plant stress and water conservation laboratory on the site made available for lease by the U.S. Department of Agriculture by the Board of Regents of Texas Tech University. Information on the proposed laboratory, including architectural design drawings, may be obtained from the U.S. Department of Agriculture, Agricultural Research Service.

Mr. Chairman and members of the committee, we appreciate your support and your continuing interest in this extremely important and timely research program. Thank you very much.

Senator MATTINGLY [presiding]. Thank you very much, Dr. Curl, for your testimony.

I believe there are no questions, so we will be ready for our next panel of witnesses, which will be, I think, Senator Thurmond, who has the honor of introducing the next panel.

I thank you.

Dr. CURL. Thank you very much.

[Dr. Curl's prepared statement follows:]

STATEMENT OF DR. SAM E. CURL

SUMMARY

USDA-ARS Plant Stress and Water Conservation Cooperative Research Funding and Construction Authorization for the Plant Stress and Water Conservation Laboratory in cooperation with Texas Tech University and the Texas Agricultural Experiment Station.

SUMMARY OF ACTIONS TO DATE

In fiscal year 1977, Congress appropriated $100,000 to initiate a feasibility study to determine the most appropriate size, program and location for the Plant Stress and Water Conservation Laboratory initially identified in Senate Document 59. That feasibility study was delivered to the Congress in March, 1978. In fiscal year 1979, Congress appropriated $800,000 to initiate planning for the research program and proposed facility in cooperation with Texas Tech University at Lubbock. In fiscal year 1983, Congress appropriated $500,000 to complete planning for Phase II and to finalize all plans and cost estimates needed for construction of the proposed laboratory. The research program plan, the facility program amendments and the architectural plans and specifications for Phase I of the laboratory have been completed. Completed plans and final estimates for construction costs for Phase II are expected by September 1, 1985. A cooperative USDA-ARS research unit is in place in Lubbock occupying temporary space on the campus of Texas Tech University and at the Texas Agricultural Experiment Station site north of Lubbock. In fiscal year 1980, Congress appropriated $200,000 to initiate basic research. The Congress appropriated $400,000 for the research program for fiscal year 1981, $450,000 in fiscal year 1982, $750,000 in fiscal year 1983, $750,000 in fiscal year 1984, and $900,000 in fiscal year 1985.

SPECIFIC ACTION REQUESTED OF THE COMMITTEE

It is proposed that Congress continue to recognize the urgency of the research indicated by appropriating funds at the level of $1,000,000 over the current budget allocation of $900,000 ($525,000 Base Funds plus $375,000 Formal Budget Funds) to this project to continue and strengthen the plant stress and water conservation research program. These funds are to be directed for cooperative research in plant stress and water conservation at Lubbock Texas involving USDA-ARS, Texas Tech University and the Texas Agricultural Experiment Station. The funds will be used to increase the research effort and to provide a core of scientists which will form the base for a more comprehensive plant stress and water conservation laboratory which has been planned at Lubbock, Texas.

We further request the Congress to appropriate funding in the amount of $22,000,000 for construction of the Plant Stress and Water Conservation Laboratory. This laboratory would be constructed on a tract of land on the campus of Texas Tech University. The Board of Regents of Texas Tech University has authorized the lease of this land to the federal government for the purpose indicated. While recognizing the urgency for reduced federal spending, we believe the investment in this facility is one in which very visible and tangible benefits will be realized within a decade. The full thrust of the research program cannot be realized until the highly specialized facilities included in the laboratory are in place and ready for use by the scientists.

The proposed laboratory represents the most advanced architectural and engineering technology available and will be energy efficient and cost effective. An estimated savings of approximately $1,000,000 will be realized if the facility is fully funded in fiscal year 1986. This is not to mention the time saved in accelerating the full scale buildup to attack the urgent problem. Construction cost escalation will likely continue so that a delay beyond fiscal year 1986 would represent a significant increase over the $22,000,000 projected if construction initiation were delayed past December, 1985.

INTRODUCTION

Mr. Chairman, I greatly appreciate the opportunity to appear before the Committee today on behalf of needed agricultural research in the area of plant stress and water conservation. This vitally needed research is encompassed in the comprehensive nationwide research mission of the U. S. Department of Agriculture-Agricultural Research Service (USDA-ARS). An intensified research program will implement the recommendations of the Plant Stress and Soil Water Conservation feasibility study prepared by the USDA-ARS.

The background setting for the problem which the proposed research addresses is found in Senate Document 59, the feasibility study conducted by the Science and Education Administration of USDA in 1977, and the statement of Texas Tech University submitted for the record before this committee on March 26, 1979. We will not repeat this information, as we believe the record is replete with scientific and economic documentation which describes the conditions of the region and the research required to seek viable solutions to a complex set of critical problems confronting agriculture and natural resource conservation throughout the Great Plains, the semi-arid southwest and arid and semi-arid lands throughout the world. Water availability and quality continue to be limiting factors affecting the growth and cultivation of existing crop species. This underscores the urgent need for new varieties of drought resistant food and fiber crops for areas where non-rechargeable groundwater reserves are declining, energy costs are increasing, and natural precipitation--even though limited--could be used more efficiently.

The national thrust to seek out all viable strategies for conserving energy and water in agriculture has amplified the urgency to seek more energy- and water-efficient strains of plant materials and improved soil and water management practices. The need for a comprehensive, multidisciplinary, long-term basic science research program is obvious. Texas Tech University has taken the lead to work to develop a cooperative program with the U. S. Department of Agriculture-Agricultural Research Service, the Texas Agricultural xperiment Station, agricultural colleges and universities throughout the region, agricultural producers, the agribusiness industry and private research organizations.

BACKGROUND

The key planning events involving Texas Tech University which have taken place in conjunction with the development of the research program and laboratory to date are as follows:

1975-1976 Preliminary discussions with officials of the U. S. Department of Agriculture and members of the Congress.

1977-1978 Congress appropriated $100,000 for a feasibility study. The study team concluded that there was indeed an urgent need for a plant stress and water conservation research program and that Lubbock, Texas, was the ideal location for a laboratory facility. A later decision to locate the facility on the campus of Texas Tech University, in conjunction with the College of Agricultural Sciences, finalized the first major step in the development of the program.

978-1979 Congress appropriated $800,000 for the preparation of a research program plan and architectural and engineering plans for the appropriate laboratory in which to carry out the proposed research. These plans have now been completed for Phase I. The structure will contain about 67,000 square feet of research space and will cost approximately $22,000,000 for construction. The facility contains space for twenty-two scientists, with accompanying greenhouses, headhouses, growth chambers and storage units.

The Science and Education Administration in August, 1979, transferred a USDA scientist (plant physiologist) to Lubbock, Texas, to serve as a cooperative scientist working with Texas Tech and Texas Agricultural Experiment Station scientists on environmental stress mechanisms in sorghum and cotton. Currently, Texas Tech is providing office and laboratory space for five USDA-ARS scientists who, together with Texas Tech scientists, are actively working in the research program. In addition, the University provides use of the library, computer and other University facilities as well as extending full faculty privileges to the USDA-ARS scientists.

1983-1984 Congress appropriated $500,000 for preparation of the architectural and engineering plans for Phase II of the laboratory, for review and finalization of all plans, and for development of final construction estimates. These plans and final cost estimates are expected to be completed by September 1, 1985.

1984-85 Congress appropriated an additional $150,000 for support of the ongoing cooperative research program, bringing the total annual funding for the research program to $900,000 ($525,000 in Base Funds and $375,000 in Formal Budget Funds).

RESEARCH PROGRAM

Funding of the Cooperative Plant Stress and Water Conservation Research Program

	Base Funds	Formal Budget Funds	Congressional Add-on Funds	Total Funds
1980	$ -0-	$ -0-	$ 200,000	$ 200,000
1981	200,000	100,000	100,000	400,000
1982	400,000	50,000	-0-	450,000
1983	525,000	225,000	-0-	750,000
984	525,000	225,000	-0-	750,000
1985	525,000	225,000	150,000	900,000
REQUEST-1986	525,000	375,000	1,000,000	1,900,000

RESEARCH ACTIVITY TO DATE

Through fiscal year 1985, Congress has appropriated a total of $4,100,000 for cooperative research in plant stress and water conservation. Scientists from USDA-ARS, Texas Tech University, and the Texas Agricultural Experiment Station have initiated studies within the framework of the research program plan developed to guide the orderly, systematic and effective search for the information needed to solve the problems identified in this statement. The research team is making progress in better understanding the relative importance of various developmental and physiological responses of plants to soil water deficits and to atmospheric drought. A substantial amount of research has been initiated in the genetic improvement of grain sorghum and cotton. These crops can be grown in areas of limited rainfall. Research currently underway includes:

Soil-Root-Water Area: Research projects are designed to define the effect of the soil environment on rooting patterns (depth and root density) of sorghum and cotton as related to soil water extraction and water use efficiency. Soil environment is defined as a function of soil type, soil nutrient status and soil water status. These experiments should provide a definition of the ideal root system necessary to exploit the maximum soil volume with the least expense to the plant in terms of non-harvestable dry matter.

Soil-Plant-Atmosphere Area: Research projects are designed to delineate the major factors involved in determining photosynthesis: transpiration ratios of both sorghum and cotton. The role of the physical environment (evaporative demand and soil water supply) and the plant response (stomatal conductance to water and the photosynthetic rate) will be defined. The research is designed to identify the minimum level of leaf conductance necessary to support maximum photosynthetic activity in each specie under a wide range of soil water conditions.

Physiological Area: Experiments are designed to evaluate the utility of certain drought tolerance mechanisms. Of prime concern is osmotic adjustment resulting in turgor maintenance. The effect of increased osmotica on cellular metabolism is unknown, and will be defined with respect to chloroplast function. The major site of stress effects also will be defined as a function of source activity or sink activity. Important sinks include new leaf development, root development and fruit development. At present we do not know whether environmental stress affects the source directly or if the observed response is due to an indirect effect resulting from reduced sink activity. Prior to exploration of genetic variability and genetic manipulation it is essential to define the site of direct stress effects.

Results from the initial studies are extremely encouraging. This work has been conducted using existing Texas Tech University and Texas Agricultural Experiment Station space and facilities. This represents a substantial effort and demonstrates an extremely efficient use of the federal and state funds expended. Essentially every state in the Great Plains has devoted some scientific effort toward developing technology to conserve our water resources and utilize that water which is available more efficiently in crop production. However, due to the disaggregation of scientists, large environmental differences between research locations, and the diversity of plant responses elicited by water stress, there appear to be no major breakthroughs on the horizon. A unified research effort toward understanding and resolving the problem is necessary. To accomplish this effort, it will require additional funding, scientists and a highly specialized research facility.

With additional funds appropriated by the Congress, the cooperative research program developed by the U. S. Department of Agriculture-Agricultural Research Service, the College of Agricultural Sciences at Texas Tech University, and the Texas Agricultural Experiment Station will be fully developed.

MAJOR BENEFITS OF THE RESEARCH PROGRAM

1. Substantial reduction in the water and energy requirements for the production of quality food and fiber crops throughout the semi-arid southwest.

2. Development of germplasm of major grain and fiber crops which possesses superior resistance to adverse environmental conditions and yet maintains an inherent high yield potential.

3. Development of the basic principles essential for the design of soil and crop management systems to conserve and make available during the growing season greater amounts of precipitation and to enhance the production of more stress-tolerant plants.

4. Maintenance of a high level of agricultural production throughout the Southern Great Plains, thereby preventing (a) the collapse of an important, highly-developed agricultural region and (b) the attendant economic, social and environmental problems which would ensue.

5. A substantial contribution to the national effort to enhance the productivity of American agriculture, thereby increasing the availability of feed grain and natural fiber commodities for sale to foreign markets.

As water efficiency of the key commodity plants is increased through the research program, less irrigation water per unit of crop yield will be required. Each inch of natural precipitation captured and stored in the soil will be used more efficiently. By substantially reducing the need for irrigation water, fuel and labor costs associated with irrigation will be decreased. If the plants perform under dryland conditions at a higher level of efficiency, the farmer's net earnings, assuming reasonable commodity prices, should be favorable. It is projected that the research encompassed by this program would result in a minimum 15% increase in water use efficiency.

THE PROPOSED LABORATORY

The feasibility study conducted by USDA recommended that a major research effort consisting of a central laboratory and support facilities be located on the campus of Texas Tech University. Three primary research thrusts have been outlined for the Plant Stress and Water Conservation Research Laboratory with specific objectives defined for each thrust. These are as follows:

Thrust 1 Characterize the dynamics of the soil-plant-atmosphere continuum.

Thrust 2 Define environmental stress impact on growth, development and yield, and identify mechanisms which aid plants in tolerating or avoiding environmental stress.

Thrust 3 Define genetic control of stress mechanisms.

CONCLUSION

The research program and proposed laboratory will require a number of disciplinary teams in areas such as soil physics, soil chemistry, soil classification, plant physiology, plant breeding, agricultural engineering, and other allied areas requiring individual scientist input. This level of activity will allow effective and efficient research activity to focus on critical questions relating to problems of plant stress and water conservation. Because of the complexity of the proposed research, and the resources needed to solve these pressing problems, this program will be of long-term nature. As the program emerges as the national focal point for basic plant stress and water conservation research in agriculture, other relevant problems associated with agricultural production in semi-arid regions will be investigated. With the development of the program, the University will be in a position to invite private industry scientists and research support to join the activity.

Congress, in fiscal year 1977, appropriated $100,000 to initiate a feasibility study to determine the most appropriate size, program and location for the Plant Stress and Water Conservation Laboratory initially identified in Senate Document 59. That feasibility study was delivered to the Congress in March, 1978. In fiscal year 1979, Congress appropriated $800,000 to initiate planning for the research program and proposed facility in cooperation with Texas Tech University at Lubbock. In fiscal year 1983, Congress appropriated $500,000 to complete planning for Phase II and to finalize all plans and cost estimates needed for construction of the proposed laboratory. This planning will be completed by September 1, 1985. Near final architectural plans and specifications for the proposed laboratory have been delivered to the USDA-ARS. In fiscal years 1980, 1981, 1982, 1983, 1984, and 1985, Congress appropriated $200,000, $400,000, $450,000, $750,000, $750,000, and $900,000, respectively, for cooperative research in plant stress and water conservation.

It is proposed that Congress continue to recognize the urgency of the research program by appropriating funds at the level of $1,000,000 over the current budget allocation of $900,000 ($525,000 Base Funds plus $375,000 Formal Budget Funds) for this project to continue and strengthen the cooperative plant stress and water conservation research program. This will bring the total research funding for FY 1986 to $1,900,000. It is further requested that the Congress appropriate $22,000,000 for the construction of the Plant Stress and Water Conservation Laboratory in fiscal year 1986 on the land provided by Texas Tech University.

Thank you Mr. Chairman, for your consideration of this proposal.

STATEMENT OF SENATOR MATTINGLY

Senator MATTINGLY. While the next panel makes its way to the microphone, let me say that it is a pleasure to chair the Agriculture Subcommittee hearing today, especially during this time when we are hearing from these knowledgeable witnesses about the value and necessity for a continued program of agricultural research. American consumers spend a smaller percentage of their disposal income for food and fiber than any other country in the world. One element which makes this possible is the increased efficiency in plant and animal production which has resulted from our research in these areas.

This is an area where the American taxpayer clearly reaps a profitable return on this research investment when we go to the grocery market for food or to purchase other items of agricultural origin. The savings realized because of lower production costs repay many times over the amounts invested in research.

I am encouraged to see that the Senate Agricultural Committee is considering provisions in the 1985 farm bill which would help increase the participation of business and industry in the agricultural research effort in partnership with our outstanding university and ARS programs. I think that this will be a step further toward improving the effectiveness and efficiency of our research programs and should help leverage more resources for these efforts.

In that regard I am going to ask that testimony provided by Dr. Charles Botticelli of GTE Laboratories be included in the hearing record. His testimony relates to a proposal in which GTE would cooperate with several universities in exploring the cost effectiveness and practicality of controlling insect pests, specifically the *Heliothis* complex, through the application of selective lighting techniques. This is an especially intriguing approach because it would also represent—if proven—an alternative which would provide significant environmental benefits through reduced dependence on toxic chemicals for crop pest control.

Last year, this committee directed USDA to study the need for and feasibility of funding one or more sophisticated, biocontainment research facilities. There was a demonstrated need at that time for more adequate laboratory space which would provide the high level of containment which is absolutely necessary if we are to protect the outside environment and ensure the safety of workers and researchers as we continue to investigate biotechnology and genetic engineering as it relates to agricultural research and to human health and industrial applications as well.

I hope the committee will continue to urge movement in this direction and I will request that USDA be directed to expeditiously press forward with its investigations in this regard. I have statements from Dr. John Bowen at the University of Georgia School of Veterinary Medicine, from the Georgia Poultry Federation and the Georgia Veterinary Medical Association regarding a proposal which USDA has been examining in this area of high-containment facilities, and I will ask that they also be entered in the record. I think we are now ready for our next panel.

[The statements mentioned for inclusion in the record follow:]

STATEMENT OF CHARLES R. BOTTICELLI, PH.D.

I am Dr. Charles R. Botticelli, Department Manager of Biological Sciences of the GTE Laboratories in Waltham, Massachusetts.

GTE Laboratories has a unique approach for developing environmentally sound pest control systems through the study of insect photoecology which focuses on how photosensitivity, primarily vision, regulates insect behavior, growth, and development. The approach centers upon basic research into photoreception by selected insect pests. For each pest, all three aspects of photoreception must be characterized: 1) the photoreceptive mechanism(s) (compound eye, ocelli, simple eyes, dermal sensitive areas, etc.); 2) the physical nature of the environment(s) where the insect occurs; and 3) the activities of the insect influenced by environmental illumination. From this basic understanding, approaches to control can be developed which address select windows of vulnerability in each insect's photoecology.

GTE is in a unique position to explore this research. Sylvania, GTE's lighting division provides GTE with the latest lighting technology making it possible for biologists to have custom lighting designed for their research. Since 1982, the Laboratories has developed and refined its unique research approach. This effort has resulted in a potential commercial method of controlling the key pest of California almonds, the navel orangeworm (N.O.W.). The success of preliminary field experiments of 1983 and 1984 generated considerable enthusiasm among grower cooperators resulting in increased field research efforts for 1985.

The results showed that the percentage damage in the almond trees under three conditions was as follows: the biocontrol plot was 14.7%, the chemical plot was 15.8%, and the light control plot only experienced 2.8% damage.

In an effort to provide an estimate of the advantage a lighting system could have the gross profits from the three experimental plots was calculated. In all cases, the use of lighting was cost-effective in the first year. Moreover, a profit was shown. We estimate that the approximate annual cost of installing and maintaining a light system is around $90/acre vs. $220/acre for the same plot under chemical control.

Our intent is to expand the developed research approach to include representative key pest species from a variety of agricultural environments. Preliminary research on the Heliothis complex suggests that many nocturnal behaviors of moths are affected by ambient light and that potential exists for developing a new, non-toxic, approach to control.

Cotton producing areas of the Southern states have a key pest complex composed of four insect species: the boll weevil (Anthomomus grandis), plant bugs (primarily Lygus lineolaris), the bollworm (Heliothis zea), and the tobacco budworm (Heliothis virescens). It is important to note that cotton, as a crop, requires more insecticide than any other major crop produced in this country and accounts for nearly 50% of all pesticide application at an annual cost of millions to farmers.

It is a continual battle between the farmer and these cotton insects. Our superiority in this contest is dependent upon our American ingenuity to diversify the arsenal we present to our insect foes. Most Americans would agree that the less we depend upon toxic compounds as solutions to our agricultural problems, the better, particularly in light of all the recent controversies around toxic waste contamination and disposal.

At GTE we are developing an entirely new weapon to add to this arsenal. We propose to use light in most unique ways. Japan is ahead of us in the application of light for controlling crop pests. They currently control night flying fruit piercing moths by flooding their orchards with light. However, they do not employ the scientific approach that we propose. With the application of specifically timed lights of known spectral quality, we can alter the photochemistry of the moths' compound eyes and temporarily blind the moths, thus, interfering with the normal conduct of activities of mating and oviposition.

We first tried to initiate a cooperative effort among the Laboratories and the federal government two years ago on Heliothis.

The Heliothis research has continued to date with no federal support at GTE Laboratories. Howevever, this research is a small part of GTE's mainstream research efforts, and the expansion of our efforts beyond our model systems is inconsistent with future corporate objectives.

Our proposal represents basic, long range, high risk research that most private businesses today cannot either afford or justify doing exclusively with our own resources. Yet, such high risk research can be justified on both an economic and academic basis if the results can have a large, positive impact on agriculture. I believe our work can result in a major contribution to agriculture and to mankind.

The Laboratories estimates that this basic research will require intensive field experiments in areas of high natural Heliothis infestations. A suitable site for field research is planned for Georgia in cotton. GTE will provide field project management and direction from staff scientists and personnel in addition to facilities for the required laboratory investigations. The Coastal Plain Experiment Station in Tifton, GA will provide field sites, nearby laboratory facilities, research materials, and on-site supervisory and technical personnel. GTE funding is only available for preliminary investigations. A GTE Work Schedule for 1985 has already been established for efforts in Tifton, GA (Exhibit I). A more expanded program of work will be adopted if we receive FY '86 funding. An annual supplement of $200,000 is required from Government/Extension services for this important effort to be expanded as proposed.

HELIOTHIS is difficult to control with pesticides because of its ability to rapidly develop populations resistant to toxicants. Recently resistance was demonstrated to the latest generation of chemical compounds, the synthetic Pyrethroids, the preferred compound for cotton pest control. If we can control insects through non-toxic means by altering their photo environments, it will provide a major new breakthrough for agriculture and environment. As a part of this project we will examine a variety of control configurations: light alone, light with colored mimics, and light with reduced chemicals.

This experiment provides a unique opportunity for interaction between growers, government, and the private sector. By creating a competitive, interactive mix of people we will facilitate expedited technical transfer to commercial adoption. One of the hidden benefits of this project would be rapid technology transfer, which is so frequently lost in research efforts.

We also believe that this project has obvious benefits for the environment, and consequently believe that the Federal Environmental Protection Agency should consider getting involved in this research along with the U.S. Department of Agriculture.

We feel this project merits federal support and thereby submit a request of $200,000 funding for FY '86 to expand this *Heliothis* project.

EXHIBIT I

HELIOTHIS FIELD RESEARCH FOR 1985

GEORGIA:

CONTACT PERSON: Dr. Gary Herzog, Coastal Plain Experiment Station in Tifton, GA. (912) 386-3374.

MILESTONES TO COMPLETE:

1. FIELD INSTALLATIONS: Install an HID lamp with a green filter. Install reflective barriers at canope height every 30ft from the light on one side. No filter and no barriers on second side.

    A. EQUIPMENT DESCRIPTIONS:

    1. **HID lighting system:** A pole with two HID fixtures will be erected in the center of the field with one lamp facing East and one facing West. The lamp facing West will be equiped with a yellow-green filter. The one facing East will have no filter. The pole will extend above the ground such that the lamps will be ajustable at the 10 to 15 ft. level. Lamps will face outward such that light is thrown from 10' to 150' from the pole.

    2. **Barriers:** Barriers will be erected at 30' intervals from the West facing light pole. They will be constructed of reflective material set at an angle to the light which will allow most of their reflective surface to receive maximum illumination. If constructed of fabric, there will be periodic slashes to enable air to circulate through without moving or tearing the structures.

        a. Suggested fabrics: Silvered mulch (stored in Florida), white heavy sail quality polyester, or painted plywood structures.

    B. FIELD DESCRIPTION:

    Layout of planting: Cotton to be planted in North-South rows in field at least 300'wide and 300'deep. Can be a corner of a field so planted rather than an isolated block. To facilitate barrier installation, a vacant row should be left at approximately 30' intervals on the West side. Pad for pole to be located in very center of block.

Locations: Field should be close to electrical source for power for the light system. Also a secure area should be selected. To avoid complaints from neighbors, a row of trees should stand between the lighted area and any houses.

2. BEHAVIOR STUDIES AND MONITORING: Damage to bolls and number of eggs and larva on plant should be checked for the East, West, and Control every three weeks through the season. This can be done by a person at the site. Studies of adult reaction to the lighted areas and barriers to be conducted at two times (late July and mid September 4) by GTE personnel.

A. BEHAVIOR STUDIES:

1. Study the reactions of adults to various environments by observing their behavior in the three field areas.

2. Study the reactions of the larvae by noting their age (size measurement) and position on the plant at random points through the block.

3. Record the pattern of egg deposition by searching plants for eggs at intervals of distance from light source.

4. Measure intensity of light at distances from source and at surface of each barrier.

B. MONITORING:

1. Check ten random plants in each area between barriers or at 30'(East side and control) for presence of eggs and larvae. Note plant part on which they are found and height on plant.

2. Periodically make a visual observation, walking through each block, of the total number of Heliothis adults flying during a 10 min period.

3. BIOASSAYS: In the field, study spectral affects of light on dispersial and orientation behavior.

A. AFFECT ON ADULT WITHIN FIELD DISPERSIAL AND MATING: Expand the technique developed and used in Arizona last fall to include lamps that represent more of the insect's visual spectrum.

B. LARVAL ORIENTATION: Use small lamps at night to determine if migrating and feeding larvae are detered by the lights.

CALENDAR:

TRIP 1: Approximately May 1. Visit site in Georgia to meet with Herzog and discuss plans. Layout plots. Continue on to Florida and arrange for shipment of HID fixtures to Georgia.

TRIP 2: Approximately June 1. Visit site and set up lamp and barriers. Do initial monitoring.

TRIP 3: Approximately July 20. Conduct behavior studies and bioassays.

TRIP 4: Approximately September 15. Conduct behavior studies and bioassays. Arrange to dismantle and store equipment.

LABORATORY STUDIES ON COTTON PESTS THAT COMPLIMENT FIELD WORK

MILESTONES:

1. VISUAL SYSTEMS INVESTIGATIONS: With G. Bernard, continue the study of Heliothis visual sensitivity on adults reared from field collected larvae. Characterize the visual sensitivity of H.zea adults, the armyworm moth (Spodoptera), and the pink bollworm moth.

   A. COLLECTION AND REARING: To be conducted at Tifton with adults sent to Yale.
      1. Pink bollworm may come from California or Arizona.

2. LABORATORY BIOASSAYS: Study attraction of adults to spectral regions of light at eclosion and maturity. Monitor egg laying of laboratory reared insects under different photo environments.

STATEMENT OF DR. JOHN BOWEN

The University of Georgia College of Veterinary Medicine is most appreciative of the Committee's interest in fostering linkages between the U.S. Department of Agriculture and university research programs to enable acceleration as well as improved coordination of research in animal diseases, especially those caused by highly infectious organisms or highly toxic chemicals. Within the continental United States, there exists a critical deficiency of facilities that provide high level containment necessary for research and diagnosis of highly infectious organisms including genetically engineered organisms and highly toxic chemicals. It is noteworthy that the University of Georgia College of Veterinary Medicine has developed architectural plans for a biocontainment research center that, if constructed, would provide not only the critically needed research capabilities, but also could serve as a national resource to Federal agencies such as U.S.D.A., E.P.A., Geological Survey and others in the event of infectious organisms or toxic chemicals, particularly if multiple occurrences of these problems occurred within the same short time period. It is proposed that this center be equipped with state-of-the-art instrumentation in biotechnology and toxicology.

Provision of Federal funding for construction of the biocontainment research center at the University of Georgia represents a cost effective approach to protecting animal and human health since funding for center personnel and operating expenses would be provided by state funds when the center is not needed as an emergency resource.

The Commission on Veterinary Medicine has great concern regarding the Executive Branch's commitment, including that of the Department of Agriculture to animal agriculture in view of the following facts:

1. Animal agriculture provides 53% of all food products consumed in the United States.
2. Farm income (1985 est.) from livestock and products was $70.7 billion -- slightly more than from crops which was about $69.7 billion.
3. USDA/ARS invests much more in plant production research ($188 million) than in animal production research ($88 million). Of the latter, $50 million supports animal disease research with 85% of this amount being directed to two research centers.
4. Only 6.5% or $9 million of Hatch funding supports animal disease research while $23.3 million supports plant protection research.
5. Across the entire agriculture system only 20% of the personnel effort is directed to animal agriculture while nearly twice that level or 37% is directed to plant agriculture.
6. In the proposed FY 1986 Executive Budget, the only formula program slated for elimination is the animal disease program under Section 1433.
7. Animal agriculture was excluded from the competitive grants program for seven years.
8. Veterinary medicine offers a valuable national research resource for enhancing profitability of livestock farming operations.

It is hoped that the subcommittee will give consideration to these facts in addressing the need for funding animal disease research programs, specifically Section 1433, Section 1434, and Special Grants.

LETTER FROM ABIT MASSEY, GEORGIA POULTRY FEDERATION, INC.

April 15, 1985

Hon. Mack Mattingly
U.S. Senator
320 Hart Building
Washington, D.C. 20510

Dear Senator:

The Georgia Poultry Federation strongly supports the proposed Biocontainment Facility at the College of Veterinary Medicine at the University of Georgia in Athens.

It would serve all segments of animal agriculture and help considerably in strengthening disease research programs and facilities and in providing protection against foreign diseases.

We hope that federal funds can be provided for early construction of this vital Center. It would be beneficial to all segments of animal agriculture and is needed badly. The prevention or elimination of just one national disease emergency could bring savings to USDA far in excess of the cost of the facility.

Sincerely yours,

Abit

Abit Massey

Letter From J.T. Mercer, D.V.M., Executive Secretary, Georgia Veterinary Medical Association

The Honorable Mack Mattingly
320 Hart Senate Office Building
Washington, D.C. 20510

April 12, 1985

Dear Senator Mattingly:

The Georgia Veterinary Medical Association wishes to indicate concern regarding the lack of availability of biocontainment facilities for animal disease research in the Southeast and nationwide.

The College of Veterinary Medicine at The University of Georgia has worked for seven years on the development of architectural plans for a Biocontainment Research Center which could address animal disease problems caused by highly infectious organisms or by highly toxic chemicals. The containment features of the Center preclude escape of disease producing organisms including genetically engineered organisms and toxic chemicals. Safety of personnel working in the Center is also assured. It is proposed that the Center be equipped with the state-of-the-art instrumentation in biotechnology and toxicology.

In addition to enabling research on highly infectious organisms or highly toxic chemicals, the Center would serve as a national resource to aid USDA and EPA in serious disease outbreaks occurring with no advanced notice and in multiple locations in the United States. This arrangement provides a cost-effective approach to protection of animal and human health as funding for Center personnel and operating expenses would be provided by the State when the Center is not needed as an emergency resource.

The Georgia Veterinary Medical Association is most appreciative of your efforts to obtain federal support for construction of this important Center which can serve as a regional as well as national resource.

Sincerely,

J. T. Mercer

J. T. Mercer, D.V.M.
Executive Secretary

CONGRESSIONAL WITNESS

STATEMENT OF HON. STROM THURMOND, U.S. SENATOR FROM SOUTH CAROLINA

Senator MATTINGLY. Senator Thurmond?

Senator THURMOND. Thank you very much, Mr. Chairman.

In order to save time, I am going to furnish a statement for the record which will cover several items: Peach tree short life research which applies to Georgia and South Carolina and other States; alternative cropping research; the Witchweed Eradication Program; the Boll Weevil Eradication Program; the Soil Conservation Service; and the REA programs.

Mr. Chairman, we will place that in the record and get it to the committee sometime today. It will save you time.

Senator MATTINGLY. Thank you, Senator.

[The statement of Senator Thurmond, including additional materials, follows:]

STATEMENT OF SENATOR THRUMOND

I would like to thank you and the other members of the Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies for the opportunity to testify here today.

Agricultural research is vital to the economic well-being of the individual farmer. It prepares the farmer to cope with new technology, increasingly specialized markets, and foreign competition. By supporting agricultural research, we in Congress can help farmers improve their enterprises and thereby keep American agriculture competitive in world markets.

In my home State, the South Carolina Agricultural Experiment Stations of Clemson University have conducted many fine research programs to improve the economic condition of farmers and aid in providing reasonably priced, quality food and fiber commodities to the public. I am particularly interested in a number of very important research programs and wish to today emphasize the need for their continued funding.

Mr. Chairman, the first of these high-priority programs, is the Peach Tree Short Life Study currently being conducted by Clemson University.

PEACH TREE SHORT LIFE RESEARCH

Peach tree short life refers to the premature death of peach trees which results primarily from root system damage inflicted by various nematodes. Prior to 1979, farmers were able to successfully limit nematode populations with use of the soil fumigant DBCP. However, DBCP use has been banned since 1979, and no effective replacement is available. It was for these reasons, together with the importance of the peach industry to the Southeast, that Congress first funded research in 1981 to combat the peach tree short life problem.

This research has been successful in further identification of the causes of peach tree short life. In addition, a variety of economically viable horticultural practices have been identified which lessen the incidence of premature death in nematode-infested peach trees. However, much remains to be done, and it cannot be done without continued funding.

Mr. Chairman, I have here a progress report on the Peach Tree Short Life Study, entitled "Peach Tree Short Life in South Carolina." The report provides a great deal of information on what has been done thus far, and outlines what will be the focus of future research should the program continue to be funded. So that all members of the Subcommittee may have the benefit of reviewing this report during their consideration of continued funding for the Peach Tree Short Life Study, Mr. Chairman, I ask unanimous consent that it be included in the record following my testimony.

ALTERNATIVE CROPPING RESEARCH

Mr. Chairman, another high-priority research program being conducted by Clemson University, in conjunction with North Carolina State University and the University of Georgia, is aimed at increasing and stabilizing farm income in the Southeast through development of alternative crops suitable to that region of the Country. This particular research program offers bright hope for southeastern farmers, and I strongly urge that it receive continued funding.

With alternative cropping, "one-crop" farmers can diversify. They can use their land, machinery, and labor resources to earn additional income and protect themselves from seasonal problems peculiar to any one market or location. In further support of continued funding for the Alternative Crop Research Program, Mr. Chairman, I ask unanimous consent that the February 16, 1985, article from The Packer entitled, "Research focuses on Southeast," be included in the record at the conclusion of my remarks, along with a March 25, 1985, Grant Pre-Proposal and a Grant Pre-Proposal for the Continuance of the Project.

THE WITCHWEED PROGRAM

Turning to another matter, Mr. Chairman, as you may know, witchweed is a parasitic foreign weed found in the United States only in parts of North and South Carolina. Witchweed parasitizes the roots of certain grassy plants including corn and sorghum, sapping nutrients and moisture from the host plant and drastically reducing yield.

The USDA's Animal and Plant Health Inspection Service has had to quarantine areas of North and South Carolina because of the infestation of this parasite. The witchweed eradication program conducted by the USDA has eliminated the weed from many areas of these southeastern states. The witchweed plant, however, has infested new counties in North and South Carolina.

Mr. Chairman, although the USDA has been very successful in removing witchweed from infested areas, much work remains to be done. Funding for the witchweed program has been reduced from $4.7 million in 1985 to $1.1 million in 1986. Efforts to eliminate this parasite must continue until it is eliminated from all of North and South Carolina. Accordingly, Mr. Chairman, I request that the Subcommittee continue the funding for this important program at the 1985 level of spending.

THE BOLL WEEVIL ERADICATION PROGRAM

The Boll Weevil Eradication Program involves the cotton crop, which is of major significance to the economy of the southeastern United States.

The Boll Weevil Eradication Program is a cooperative effort involving the United States Department of Agriculture and cotton growers. The farmers pay for 70% of the program and the USDA provides funding for the other 30% of the program's expenses. The program has succeeded in eradicating this troublesome pest from Virginia and most of North Carolina. Efforts are now concentrating on South Carolina and Georgia. Once the boll weevil has been completely eliminated from a State, the farmers will continue to support a maintenance program to keep the boll weevil from returning to the infestation-free areas.

The elimination of the boll weevil from the entire Southeast is critical to the economic survival of cotton farmers in our region. These farmers are anxious to continue this program and have given it their financial support. Mr. Chairman, uner the Budget Requests, the funds for the boll weevil program would be cut from $3 million in 1985 to $1 million in 1986. Reducing the program at this point would seriously jeopardize progress made to date. Therefore, Mr. Chairman, I sincerley hope the Subcommittee can find sufficient monies to continue funding of the boll weevil program made at its current level.

THE SOIL CONSERVATION SERVICE

Mr. Chairman, today I would also like to address the funding of another important government function, the Soil Conservation Service. The goal of this agency is to protect and preserve our Nation's valuable soil and water resources. The maintenance of arable land and abundant water supplies is vital to our entire economy. Since the Soil Conservation Service was created in 1935, the agency has worked to conserve and replenish these precious resources for use by future generations.

Mr. Chairman, in my judgment, we simply cannot afford to eliminate or too drastically cut this valuable service agency, which provides invaluable technical services to farmers and cooperative's conservation efforts with state and local governments. Our soil and water resources are crucial to our survival and must be wisely managed.

R.E.A. PROGRAMS

Mr. Chairman, I would also like to take this opportunity to encourage members of this Subcommittee to support continuance of the Rural Electrification Administration direct loan, and loan guarantee programs. These programs have been of tremendous assistance to rural communities all across our Nation.

Termination of these important programs would result in increased rates for electric and telephone services, thereby lessening the quality of life in rural America. The impact would be greatest upon the farmer, who already is suffering great economic hardships.

Again, Mr. Chairman, I urge that the members of this Subcommittee do all they can in the upcoming fiscal year 1986 budget and appropriations process to ensure these vitally important programs are not disproportionately reduced or eliminated.

PEACH TREE SHORT LIFE IN SOUTH CAROLINA

INTRODUCTION

Peach tree short life (PTSL) is characterized by sudden tree death during flowering or early leaf development in the Spring. Since 1979 approximately 450,000 peach trees have succumbed to PTSL in South Carolina, representing a monetary loss of about $37 million (Fig. 1). Comparable losses have been experienced in other southeastern states.

Research has shown that certain practices such as maintaining proper soil pH, proper fertilization, proper rootstock, prevention of root pruning and foliar pruning at a time that puts little stress on trees will help prevent PTSL. The nematode problem remains paramount and failure to find a way to either control or manage the nematode populations will result in continued exhorbitant losses of trees and dollars.

A program of systematically sampling orchards for nematodes had been formulated and an economic threshold established. A soil fumigant, DBCP, proved effective for ring and root-knot nematode control and had gained wide acceptance in the early 1970s. However, cancellation of the use of DBCP in 1979 meant that there was no satisfactory control for nematodes on established peach trees.

The nematode concern aside, Clemson scientists have found 8 practices that are helping peach growers cope with production.

1. Several plants were identified that may be both satisfactory for orchard floor management and lessen nematode impact.
2. Microorganisms detrimental to nematodes were identified and may be suppressive to ring nematodes in orchards.
3. Hundreds of Prunus spp. are being screened for ring-nematode resistance.

Fig. 1. The cumulative dollar value of the loss is \$37,008,250[1]. The dollar losses by year were: 1980 - \$3,521,760; 1981 - \$3,317,649; 1982 - \$6,480,979; 1983 - \$10,728,258; 1984 - \$12,959,604. These loss values include the dollar value of the crop in the year of death and the lifetime income that will not be received by the grower had the tree lived to a normal age of 15 years. The grower invested in this perennial commodity with expected annualized income spread over what was considered a conservative life of the crop, given pest management (nematodes) alternatives available at the time of planting. The removal of DBCP has reduced life of orchards. Given the pattern of tree death, 1-7% per year, the loss is justified, since the grower is still expending dollars "out of pocket" for the care and maintenance of the orchard till its removal.

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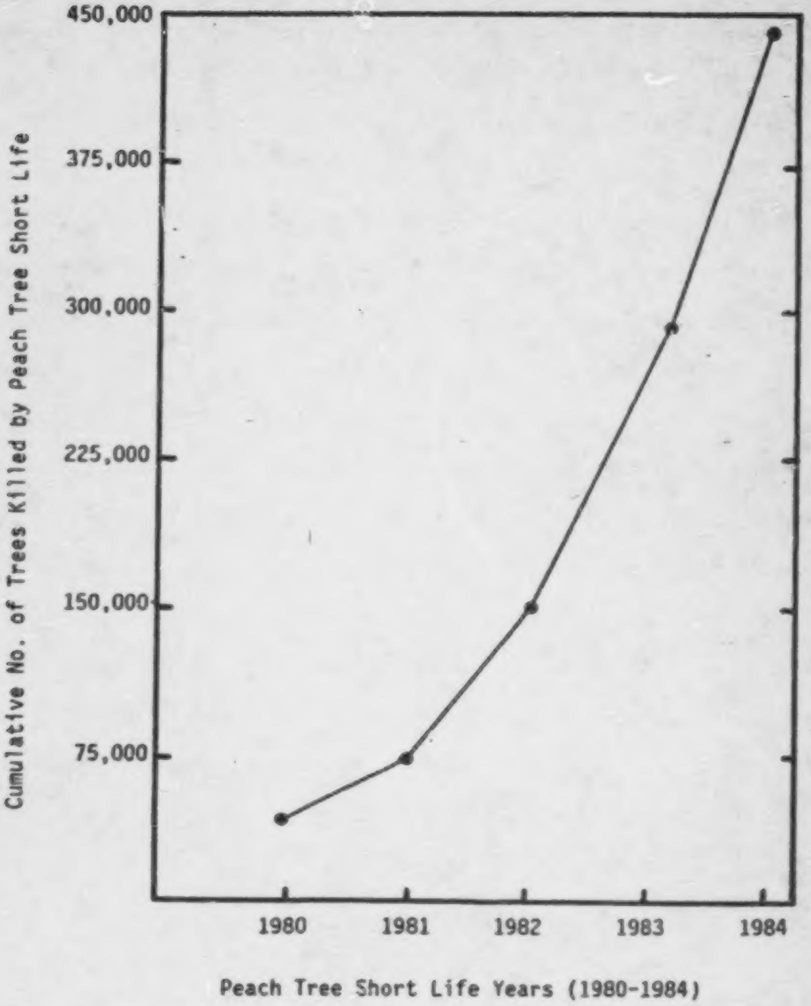
[1] Based on data by Bauer, 1978, "Cost and returns of producing peaches in South Carolina." Special bulletin 617, Agricultural Economics Department, Clemson University, Clemson, SC 29631. The data is based on assumptions of 3/4 bu. worth \$6.00, and 1-1/2 marketable bu./tree, tree death at 8 years of age and a 9% discount rate. The values, to date, are adjusted for spring freezes during observed years.


450,000
375,000
300,000
225,000
150,000
75,000
Cumulative No. of Trees Killed by Peach Tree Short Life
1980
1981
1982
1983
1984
Peach Tree Short Life Years (1980-1984)

4. Summer pruning can be done without unduly contributing to PTSL and can be an alternative to fall pruning which is detrimental.
5. A chill [illegible]it method of calculating dormancy allows growers to better judge when to winter-prune.
6. Although peachtree borers are detrimental to peach trees, an infestation does not directly contribute to PTSL. Good insect management practices now recommended are satisfactory for limiting economic loss by peachtree borers.
7. Water management measurement techniques were developed to measure the effect of water management on stress that will lead to a better understanding of the effect of water on PTSL.
8. An economic model was developed that estimates the expected annualized income from an orchard. Several sets of conditions unique to each grower can be used to predict when an orchard is no longer profitable and should be replaced.

Following is a more detailed account of the results obtained from the PTSL research funded under the Special Grants Program PL 89-106 USDA-CSRS.

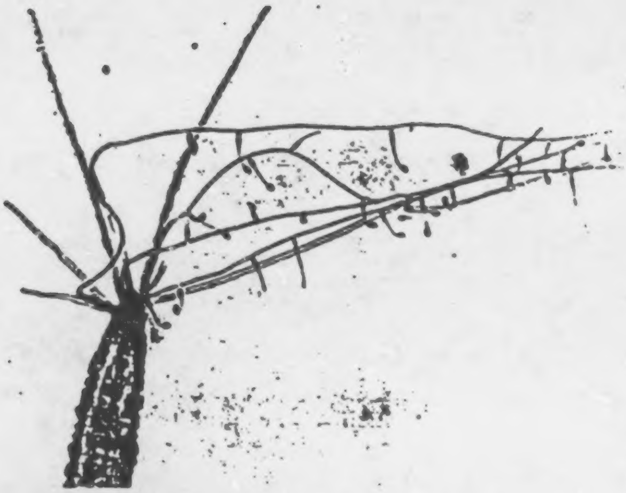
BIOLOGICAL CONTROL OF THE RING NEMATODE

Participants include, 1) Dr. Stephen A. Lewis, Professor of Nematology, Department of Plant Pathology and Physiology, Clemson University. He supervised use of alternative orchard floor cover crops with the potential of suppressing ring nematodes. (2) Dr. Eldon I. Zehr, Professor of Plant Pathology and Physiology, supervised the search for microorganisms occurring in the soil that are suppressant to the ring nematode and assisted with the search for resistance to ring nematodes. 3) Dr. David Cain, Associate Professor of Pomology, Department of Horticulture, leads the search for rootstocks either resistant or tolerant to ring nematodes. 4) Dr. J. K. Golden, Associate Professor of Plant Pathology and Resident Director, Sandhill Experiment Station, Elgin, SC, manages the field plots for resistant rootstock tests.

Three major thrusts for using biological controls for ring and other nematodes have been studied: 1) The use of microorganisms occurring in the soil as depressants of ring and root-knot nematodes, 2) the use of alternative orchard floor cover crops with the potential of suppressing the ring nematode, and 3) a search for *Prunus* rootstocks either resistant or tolerant to ring nematodes.

Ring nematodes infected with *Hirsutella rhossiliensis* were found in many peach orchards. This fungus readily parasitized the ring nematode in a laboratory setting (Fig. 2), and the parasitism increased when inorganic salts were increased in the solution containing ring nematodes and fungi. Further research found that the fungus did reduce the ring nematode population as much as 80% in steamed soil within 3 to 4 months but that level of suppression was not consistent. A longer term field experiment was begun in 1983 to measure the amount of ring nematode suppression by the fungus. This experiment consisted of inoculating ring nematode infested soil and fumigated soil with both the fungus and the ring nematode at two levels of potassium fertilizers. The fungus became established in the nematode population, but the nematode numbers remained more than would be considered economic control.

Fig. 2. Sporulation of the fungus *Hirsutella rhossiliensis* from a colonized ring nematode, *Criconemella xenoplax*, after incubation for three days. The spores stick to the nematode. After a few days the fungus penetrates the nematode body and fungus strand develops inside the nematode body. The nematode then dies and the fungal strands continue to grow and within a few days the fungal strands emerge from the nematode, usually at the head or tail, and new spores are produced. When a nematode comes in contact with a spore, the spore will remain attached to the nematode until the fungus penetrates the nematode.



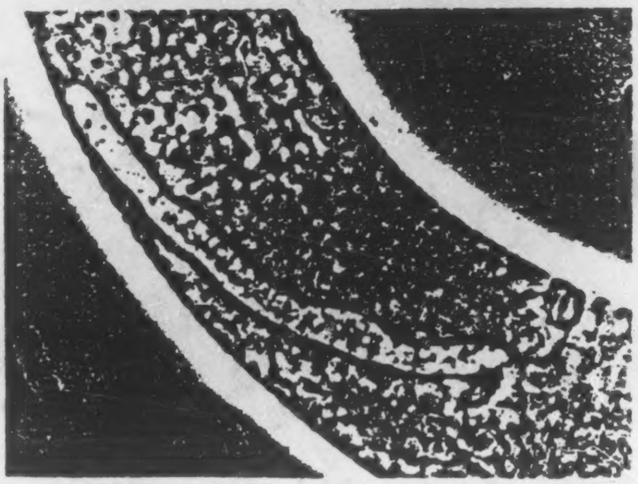


Table 1. Contrasts of reproductive rates of ring nematodes from different sites in South Carolina on Nemaguard peach roots. Greenhouse tests.

Populations from different sites	Days from inoculation				
	66	94	122	178	
PTSL (1-6)	18.31a[1]	103.78b	319.22a	1368.78a	2952.17a
vs. Virgin (7-9)	13.33a	50.67a	225.00a	1170.56a	2605.78a
Population 1	21.33a	173.33b	543.33b	1814.67b	4138.62b
vs. population 7	13.33a	50.67a	95.33a	446.00a	1012.00a
Population 5	-[2]	-	216.00a	1594.67a	3362.00a
vs. population 8			354.67a	1563.33a	4308.00a
Population 10	-	-	-	-	7.00a
vs. population 11					3.00a
Population 10	-	-	-	-	7.00b
vs. populations 1-9					2836.71a
Population 11	-	-	-	-	3.00b
vs. populations 1-9					2836.71a

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[1] Means followed by the same letter within contrasts and days are not significantly different based on orthogonal contrasts ($P = 0.05$) performed on log (N+1) transformed data.

[2] Certain populations did not appear at these dates.

Host suitability of 43 species of cultivars of plants to ring nematodes (Criconemella xenoplax) was tested in the greenhouse. Populations were not maintained on several of those hosts. Further experiments are being conducted to see if certain hosts that could be used as cover crops will reduce ring nematode populations interplanted among susceptible peach trees without damaging peach tree roots.

Development of a peach rootstock resistant to ring nematodes could be a satisfactory long term solution to peach tree short life. Since there is no known source of resistance, an effort was started to locate and genetically characterize a source of resistance. A collection of about 300 Prunus spp. clones was established at the South Carolina Agricultural Experiment Station's Sandhill Research Station. This collection included peach scion and rootstock cultivars, plant introductions from throughout the world, promising breeding lines from other rootstock breeding programs in the United States, related Prunus spp., and old peach trees from peach tree short life orchards. This collection represents as diverse a collection of Prunus breeding material as can be obtained within the United States. Open pollinated seeds were collected from 142 different varieties. Twelve thousand seedlings are now being screened for resistance to ring nematodes and tolerance to peach tree short life. To speed up the screening process, greenhouse and in vitro laboratory screening procedures are being developed.

Comparisons of ring nematode populations from PTSL sites and non-PTSL sites as well as a survey of nematode populations in peach growing areas of the Southeast have demonstrated that there is more than one species of ring nematodes involved and that there may be many races to deal with (Table 1).

Development of a C. xenoplax resistant rootstock will be a long term project. Even after a source of resistance is discovered, acceptable horticultural characteristics will have to be incorporated to produce commercially acceptable rootstocks.

STAGE OF PRUNING

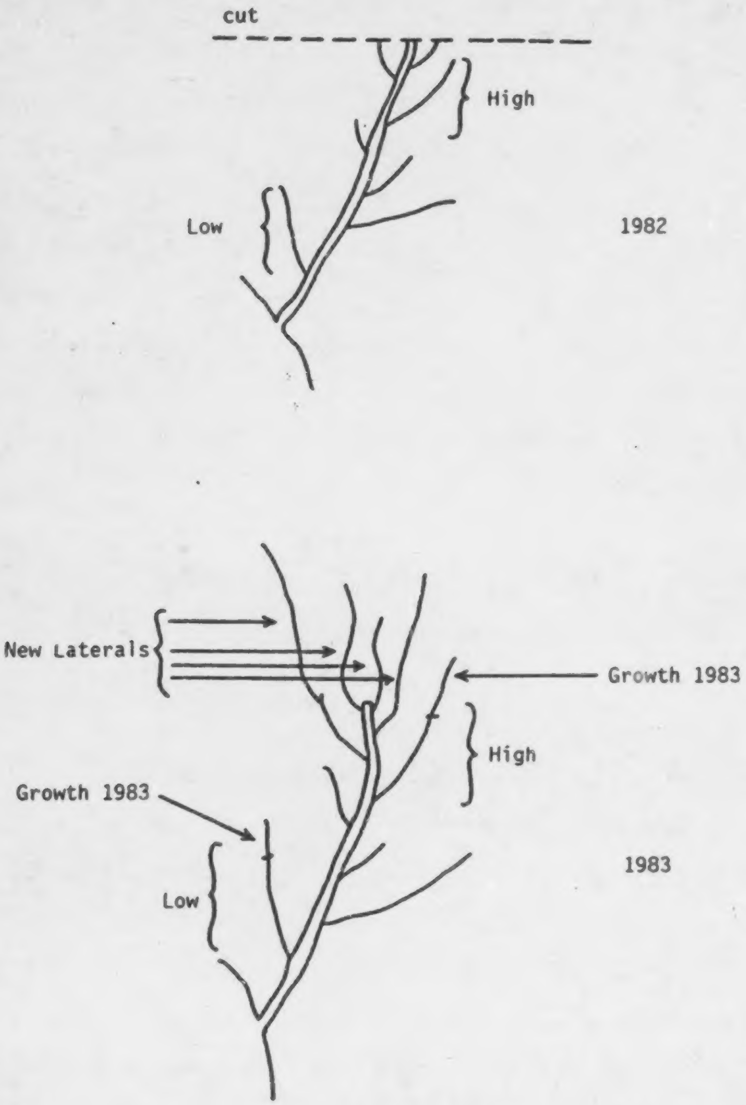
Participants include: 1) Dr. D. C. Coston, Associate Professor Pomology, Department of Horticulture, Clemson University, leads the pruning experiments. 2) Dr. G. E. Carter, Jr., Professor of Plant Physiology, Department of Plant Pathology and Physiology, Clemson University, does the hormone analysis.

Dormant-season pruning in October and November has resulted in greater peach tree short life when compared with pruning in January and February. Summer (August and September) topping appears to be an alternative pruning practice. Experiments were designed to evaluate the effect of summer topping on tree loss to peach tree short life, on the vegetative growth, and on flowering and fruiting. The results to date indicate that summer pruning will not increase early tree death. Regrowth occurred the year of pruning only on trees pruned in June and July with more regrowth on 1-year-old wood than 2-year-old wood. Laterals closer to the pruning cut grew more than laterals farther away (see Fig. 3 for diagram of high and low lateral limbs). The greater the diameter of the shoot cut, the greater the length of the new laterals. In all types of growth measured, more growth occurred on pruned trees than on nonpruned trees.

On lateral branches outside the canopy, flowering was reduced by pruning either in June or July. Regrowth on those shoots had no flowers. The low laterals from previous season's wood in the edge of the canopy did not grow after pruning. The remaining shoots received more light and consequently more flower buds developed. The final fruit density on pruned and nonpruned trees was equivalent.

Temperature was continuously monitored in an experimental orchard starting in early October and continuing through February. There were 288 trees and the orchard was maintained as recommended by the Clemson

Fig. 3. A diagram depicting pruning cuts made in mid-summer (above) and the regrowth potential the following year (below).

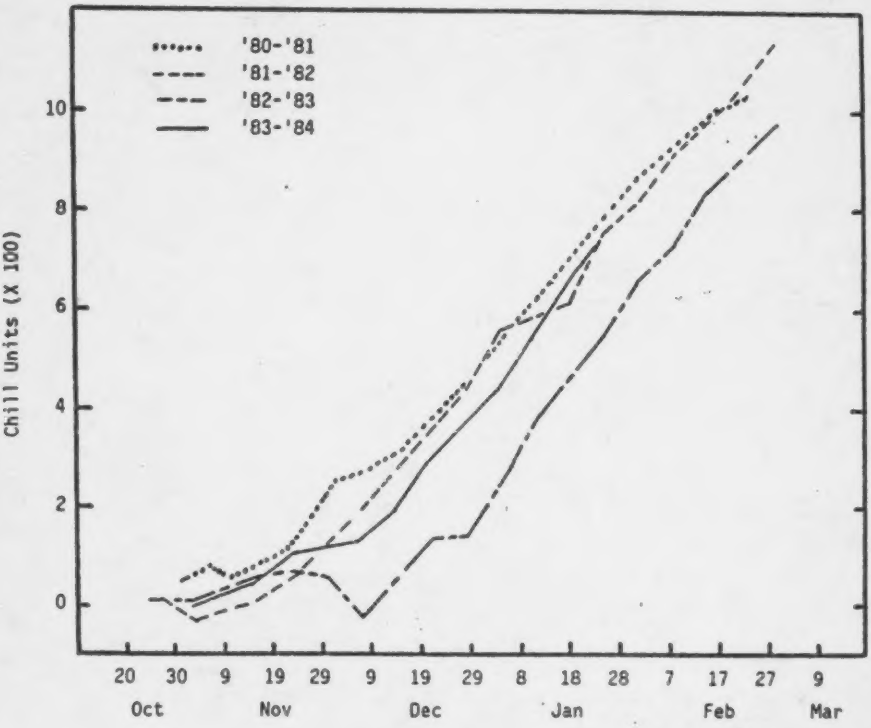

cut
High
Low
1982
New Laterals
Growth 1983
High
Growth 1983
Low
1983

Cooperative Extension Service. Chill hours and chill units were calculated (Fig. 4). The chill unit method of determining when peach trees are dormant is more accurate than the chill hour method. However, in all four years of the study, it was January before the trees even with the shortest chilling requirements were ready to prune. Over the four-year period, 88.5% of the trees killed by PTSL had been pruned before January 1 (Table 2).

Table 2. Percent of dead trees which were pruned in the fall each year.

Cultivar	1980-81	1981-82	1982-83	1983-84	Total
Camden	100	87	100	80	88
Junegold	0	100	--	100	92
Redhaven	100	91	75	100	84
Redglobe	100	75	71	100	90

Fig. 4. Temperature was continuously monitored from early October through February over four years under orchard conditions. Chill units are hours of temperature at 40 F minus weighted time for the hours in which temperature is either over or under 40 F. Chill units are more accurate than chill hour measurements of the peach tree's metabolic activity.



INSECT MANAGEMENT

Participants include: 1) Dr. Clyde S. Gorsuch, Associate Professor of Entomology, Department of Entomology, Clemson University, directs the research on peachtree borers and other insects affecting peaches. 2) Dr. G. E. Carter, Jr., Professor of Plant Physiology, Department of Plant Pathology and Physiology, Clemson University, assists with hormone and other chemical analyses.

Peachtree borers are associated with most peach orchards in the Southeast. Their role in peach tree short life was investigated in relation to the effect of peachtree borer (Synathedon pictipes) on tree vigor and susceptibility to winter injury. Two-year-old peach trees were infested with peachtree borer larvae. Twig samples were collected at regular intervals from December 1983 through February 1984 and from May through August 1984 for analyses of a plant growth hormone. Tree growth was measured by monitoring the increase in girth, and nutrient levels in foliage were measured by leaf tissue analysis. Peachtree borer levels were monitored with sex-pheromone baited traps and at sites in major peach growing areas of South Carolina. Dispensers containing a sex hormone were placed one per tree, and the population monitored over the season.

There was no detectable difference in the measured growth hormone (indole-acetic acid) between the peachtree-borer-infested and control trees except in January when the growth hormone was less in the infested trees. There was no difference in tree growth, measured by trunk diameter change, or in nutrient levels in the foliage. These results indicate to the researchers that even though peachtree borers are very damaging to peach trees over time, they do not measurably contribute to the peach tree short life syndrome. It was found that there were two generations of the lesser peachtree borer but only one of the peachtree borer. The pheromone was not active over the entire season, there was some mating of the lesser peachtree borer in the presence of the pheromone, and fertile females migrated into the treated area. Therefore, sex pheromones are not an alternative to recommended chemical control measures at this time.

WATER MANAGEMENT

> Participants include: 1) Dr. James T. Ligon, Professor of Agricultural Engineering, Department of Agricultural Engineering, Clemson University, directs the water management experiments. 2) Dr. George E. Carter, Jr., Professor of Plant Physiology, does the plant hormone and other chemical analyses.

Water management experiments were established to measure effects of soil moisture, either deficiencies or excesses, on the growth and vigor of peach trees and their consequent susceptibility to peach tree short life.

Soil containers, 2x4x4 feet, were constructed and filled with sandy loam soil. A single peach tree was planted in each container. They were placed in a greenhouse where water was applied on a predetermined schedule. Two sets of water management treatments were applied. For three months during late winter and early spring, the water table was controlled at 1, 2, or 3 feet below the soil surface to simulate variable water table conditions found in one of the major peach growing areas of the Southeast. During the remainder of the year, containers were allowed to drain freely. Half of the trees received water twice weekly in the amount equal to the estimated evapotranspiration. The remaining trees received water at half the evapotranspiration rate.

During the first year the water treatments were applied, trees receiving the higher rates of water grew 30% faster than those receiving half as much water. There was no growth difference in growth rate between trees subjected to the three water table levels. Growth hormones are being analyzed to determine if a measure of tree stress can be readily made.

A complementary field experiment was established in a commercial each orchard in Edgefield, SC. One site represented well drained soils, and the second site had a high water table during wetter times of the year. Blocks of four trees were selected in each site to represent irrigated conditions and normal rainfall conditions. Watermark soil moisture blocks were installed in the area surrounding each tree. A total of 384 moisture blocks were installed at varying depths down to five feet and from one to ten feet from the tree. Electrical resistance of the blocks vary with soil moisture. Electrical leads from 32 blocks were fed into a multiplexer box which was connected to a Campbell Scientific CR-7 data logging system. The CR-7 activates each multiplexer at preset intervals, scans, and records the electrical resistance of each block. Other information recorded at each site included air and soil temperatures, relative humidity, solar radiation, wind speed, and precipitation. The data is automatically fed into a central computer facility for analysis. Other measurements included water table depth, evaporation, and tree growth. Along with plant hormone measurements, the data accumulated will be used to develop models to predict the time and location for most effective irrigation of peach trees to maximize growth and production and to reduce peach tree short life.

ECONOMIC ANALYSIS

> Dr. Larry L. Bauer, Professor of Agricultural Economics, Department of Agricultural Economics and Rural Sociology, directs all fiscal analyses with assistance from other cooperators associated with the Peach Tree Short Life Project.

Decision making regarding orchard replacement has become more complicated. The number of trees lost to peach tree short life is the key factor, but other variables impacting the decision to replace involve price, yield, discount rates, tax rates, and age of the orchard. A perennial crop, such as peaches, is a long term, income producing asset. Decisions cannot be made on the basis of income from one year, but there needs to be an assessment of expected further incomes. A model was developed that estimates the expected annualized average income of a replacement orchard. This value can be compared to current annual income from an existing orchard to make a replacement decision. When the annual income from the current orchard falls below the expected annualized average from the replacement orchard, the economic decision is to replace the current orchard (Table 3).

The annualized average income of a replacement orchard is estimated by determining the stream of annual incomes, discounting to obtain a present value of the income stream, and ammortizing to place this sum on an annual basis. The resultant figure is compared to the annual income from the existing orchard. Since accurate predictions of tree loss rates cannot yet be made based on management practices, 2,250 different scenarios for replacement of orchards will be calculated. The producer will compare his current situation with the replacement orchard that matches his expectations as to price, yield, loss rate, etc., and that matches his discount and tax rates. That information will be present for producers in the form of a series of tables and in a personal computer program.

Table 3. Expected annualized income of a peach orchard with 15-year life and 5% annual loss rate of trees, various prices, discount rates, and income tax rates.[1]

Income tax rate (%)	Price ($/.75 bu)	Discount rate			
		10	12	14	16
30	6	--	--	--	--
	8	17	--	--	--
	10	269	243	218	193
	12	508	474	436	407
	14	744	701	659	617
35	6	--	--	--	--
	8	8	--	--	--
	10	246	221	197	174
	12	469	436	404	373
	14	688	647	607	568
40	6	--	--	--	--
	8	--	--	--	--
	10	233	199	176	154
	12	429	399	368	338
	14	632	594	556	518

[1] The hypothetical orchard shown is assumed to last 15 years with an annual loss rate of 5% of the trees. If, for example, the owner expects a price of $10 per three-quarter bushel, is in the 35% income tax bracket, and has a 12% discount rate, the expected annualized average income of the replacement orchard is $221 per acre. Therefore, if the annual income of an existing orchard drops below this figure, it should be replaced. Where there are no entries in the table, the expected income is negative.

FURTHER RESEARCH NEEDS

Further research funded by the special grants program should be directed toward 1) developing peach rootstocks resistant to ring nematodes by field screening the germplasm collection on hand, searching for new germplasm and by developing plant breeding strategies to build resistance into suitable rootstocks, 2) developing an in vitro system of screening candidate rootstock by using meristem explant cultures to develop the plants and cultured nematodes of known species as inoculum for faster and more definitive testing, 3) improving application methods for new classes of nematicides through low volume irrigation systems to improve placement of the nematicide and to reduce hazards to users and to the environment, 4) pursuit of biological control systems whereby plants that are antagonistic to ring and root-knot nematodes and which will help manage the nematode populations, and 5) pursue the use of microorganisms as suppressive agents to ring and root-knot nematodes in peach orchards.

PUBLICATIONS AND MANUSCRIPTS IN PROGRESS

Ajuzie, Emmanuel. Framework for replacement decisions in peach orchards. M.S. thesis (C. S. Gorsuch, Advisor).

Armstrong, Fletcher. Modeling soil moisture status in a peach orchard under trickle irrigation. Ph.D. dissertation (J. T. Ligon, Advisor).

Cain, D. W. 1982. Breeding rootstocks for resistance to ring nematodes and peach tree short life. Proc. Stone Fruit Decline Workshop, East Lansing, MI, Oct. 18-20.

Cain, D. W., W. R. Okie, E. I. Zehr, and A. P. Nyczepir. 1984. Preliminary results of field screening peaches for resistance to Criconemella xenoplax. Proc. Second Stone Fruit Decline Workshop, Kearneysville, WV, Oct. 30-Nov. 1.

Eayre, Cynthia G. 1984. The potential of Hirsutella rhossiliensis to suppress *Criconemella xenoplax* populations. M.S. thesis (E. I. Zehr, Advisor).

Harshman, David. The influence of the ring nematode, *Criconemella xenoplax* (Raski, 1952) Lue and Raski, 1981 (Nematoda:Criconematidae) on cold hardiness of peach trees. M.S. thesis (S. A. Lewis, Advisor).

Jaffee, B. A., and E. I. Zehr. 1982. Parasitism of the nematode *Criconemella xenoplax* by the fungus *Hirsutella rhossiliensis*. Phytopathology 72:1378-1381.

Jaffee, B. A., and E. I. Zehr. 1983. Effects of certain solutes, osmotic potential, and soil solutions on parasitism of *Criconemella xenoplax* by *Hirsutella rhossiliensis*. Phytopathology 73:544-546.

Jaffee, B. A., and E. I. Zehr. 1983. Sporulation of the fungus *Hirsutella rhossiliensis* from the nematode *Criconemella xenoplax*. Plant Dis. Nov. 1265-1267.

Johnson, Kenneth E. The influence of summer pruning of peach trees on tree growth, fruit quality, and cold hardiness. Ph.D. dissertation (D. C. Coston, Advisor).

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RESEARCH FOCUSES ON SOUTHEAST

[From The Packer, Feb. 16, 1985]

ATLANTA, GA. — A regional vegetable research project has received federal funding and now is under way in North Carolina, South Carolina and Georgia.

With the imposing official title of "Economic Survival and Agricultural Adjustment in the 1980s: An Investigation of Alternative Cropping Systems in the Southeast," the study has been funded by Congress at the rate of $288,090 for the first year of an anticipated five-year run.

Research will focus on the feasibility of vegetable crops as a replacement for more traditional commodities, like tobacco and peanuts, which have been hit hard by depressed markets and vacillating government programs during the past 15 years.

The thrust of the study will be in two areas — production and marketing. Agricultural economists and horticultural researchers from Clemson University in South Carolina, North Carolina State University and the University of Georgia will coordinate their efforts through Bob Robinson and Bob Anderson of Clemson.

LARRY BAUER, professor of agricultural economics at Clemson, is in charge of the marketing end of the study. "We'll be looking at the marketing problems associated with vegetable production in the Southeast," he said.

Bauer and his counterparts in North Carolina and Georgia will analyze current vegetable marketing channels, methods for breaking into those channels, the outlook for new market development, costs and profitability.

"One of the first things we're going to do is a marketing window analysis," Bauer said. "Are there times when Southeastern vegetable producers could get to existing markets when prices are profitable?"

Market analysis initially will focus on the Northeast, because that's where the best data is available, he said. "We're not going to restrict ourselves to the Northeast when we start looking at marketing channels and possible market development." Local markets within the three states also will be studied, as will markets in nearby states, he added.

'One of the first things we're going to do is a marketing window analysis. Are there times when Southeastern vegetable producers could get to existing markets when prices are profitable?' — Larry Bauer

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The horticultural aspect of the study will look at the possibility of vegetable crop sequencing — from south to north in the spring and summer and back south in the fall — as a means of providing a steady and large volume flow of selected commodities into specific markets.

DEAN BATAL at the Coastal Plain Research Station, Tifton, Ga., is coordinating horticultural research in Georgia for the project.

"Our objective is to have continuity of supply to the market beginning in early April from southern Georgia, cycling all the way up through South Carolina to the mountains in North Carolina, then coming back to south Georgia toward the end of December," he said.

Sequential test-plot planting will begin this summer in at least two climatically different locations within each of the three states. Test crops will be broccoli, cauliflower, cantaloupes, cucumbers, collards, Irish potatoes, snap beans, peppers, tomatoes and lettuce.

After three years, horticultural results will be evaluated thoroughly with more specific testing the last two years of the projected five-year study.

The production and marketing study initially was designed by Clemson University staffers and later expanded to include North Carolina and Georgia. Funding for the project was shepherded through Congress by Sen. Strom Thurmond, R.-S.C.

Industry sources indicated that much of the current impetus for vegetable crop production in the Southeast is due to administration efforts to severely curtail government tobacco and peanut programs. Vegetable crops, which demand similar intensified management and costly inputs, are seen as a possible way out of the woods for regional farmers who already have huge investments in machinery and irrigation systems.

The regional production-marketing study is a new concept in agricultural research, according to Batal.

GRANT PRE-PROPOSAL

I. Title: Economic Survival and Agricultural Adjustment in the 1980's: An Investigation of Alternative Cropping Systems in the Southeast

II. Problem Statement and Justification:

In recent years the profitability of agriculture has been declining. The viability of the family farm structure is in jeopardy. This has especially been true in the coastal states of the Southeast where there is a predominance of farms less than 180 acres. The situation is currently at a crisis level. For example, total South Carolina net farm income went from about $247 million in 1979, to minus $6 million in 1980, back to $138 million in 1981, $136 million in 1982, and dropped to minus $19 million in 1983. North Carolina had a similar situation during this period. Comparable figures for North Carolina were 902, 821, 1181, 1012, and 802 respectively for the five years. Net farm income in Georgia was 688, 90, 579, 650, and 600 million dollars in 1979-1983, respectively. During the period 1979 to 1983, production expenses as a percent of gross income in these three states varied from a low of 76.4% in North Carolina for 1979 to a high of 94.6% in South Carolina for 1981.

These tremendous shifts are related to changes in world agriculture and general economic issues at the domestic and international level. Agricultural policy has also changed; the trend in the 60's was high price supports and acreage reduction; in 1972 the emphasis changed to more of a market orientation. These policy changes in conjunction with reduced output throughout the world resulted in a few very prosperous years for U.S. agriculture. In recent years, good weather has resulted in large production world wide and real farm income has been declining. In the U.S. this situation has been aggravated by a trade embargo imposed on Russia, formerly one of our largest customers.

Continued survival of agriculture in the Southeast, which is characterized by a large number of relatively small farms, is dependent upon the extent to which the industry can adapt to changing policy and economic conditions. The economic environment in which regional agriculture operates has undergone substantial change in the the past and is likely to experience even more change in the future. For example, cotton acreage in South Carolina decreased from an average 862,000 acres during 1949-58 to 118,000 acres in 1981 as a result of changing economic conditions. In Georgia the acreage decreased from over one million acres to 175,000. In North Carolina, the decrease was from 575,000 to 82,000. At the same time, soybean acreage in South Carolina increased from 175,000 during 1949-58 to 1,550,000 acres in 1981. The increase in Georgia was from 52,000 to approximately 2.2 million acres. Acreage in North Carolina increased from an average of 52,000 to almost 1.9 million. Some of these adjustments have been devastating to the individuals involved because of their failure to anticipate and plan for changing conditions. Economic risk could possibly be reduced by not depending solely on traditional crops but changing to cropping systems that include new crops that have viable markets.

In addition to changes in economic conditions, there have been changes in the resource base which may allow adjustments in enterprise selection which were not previously feasible. As an example, there has been a substantial increase in the number of irrigated acres in the Southeast. This change may have altered the comparative advantage of South Carolina in the production of several crop enterprises. The change has also altered the cash flow requirements of South Carolina producers.

One reason for southeastern farmers using increased irrigation is to become more competitive with the Midwest in the production of traditional crops such as corn and soybeans. While not completely offsetting the economic difficulties in the production of typical crops, it would appear this equipment has opened up alternatives for the large scale production of more land intensive crops such as vegetables. Many farmers are finding it difficult to cover the added costs of center pivot irrigation systems and are searching for high value crops which can be multiple cropped with traditional crops within a single season. This could increase revenue and therefore utilize land and other resources more efficiently. Some vegetable crops fulfill these requirements.

On small and part-time farms, labor is often available in relative abundance. Vegetable enterprises could potentially make profitable use of the labor resource and increase the income of small and part-time farms.

It would appear the Southeast could have a comparative advantage in the production of at least selected horticultural crops. For example, the high level of management necessary for tobacco could also be used for horticultural crops in a double cropping operation. Soils in the Southeast are such that they should be capable of producing yields comparable to many of the current primary horticultural producing areas of the world.

The growing season in the Southeast is as long as 290 days on the coast, dropping to 200 days in the mountainous areas of Georgia and the Carolinas. It is possible that three or four plantings of some vegetable crops could be produced in certain areas of these three states. There is also the potential of multiple cropping systems including horticultural and row crops. Geographically, the Southeast has transportation advantages in being closer to the eastern markets and population centers and has established seaports at Charleston, Wilmington, and Savannah for the possible development of export markets.

Historically, the Southeast has produced vegetables and small fruits. However, research is needed to develop improved production procedures so that the higher yields possible in the Southeast are realized. With a few exceptions, such as pickling cucumbers, tomatoes, and sweet potatoes, production has been primarily for fresh market and directed mostly to local consumption.

Population is increasing throughout the Southeast. The area is a deficit producer of most vegetable and small fruit crops. If vegetable crop production is to be expanded, there is a critical need for research to evaluate production systems and marketing alternatives associated with processing and with increased sales in the population centers of eastern U.S. The development of a vegetable processing industry would produce added value and induce added employment in the region.

The concern of the consumer with nutrition is resulting in increasing demand for vegetables. The potential for profitable prodution is favorable not only in the Southeast but nationwide. The models and technology developed in this research will transfer easily to other areas of the Southeast and the nation.

III. Objectives:

In general, the purpose of this research is to investigate the economic and biological feasibility of expanded production of vegetable crops either as a complement to or a substitute for currently produced crops. The research will be size neutral, i.e. benefits will accrue to all family farms, small as well as those with a larger acreage. Specific objectives are:

A. Idenfity commodities which have the most potential for expansion in the three-state region.

   1. Identify commodities for which a "market window" exists,

i.e., a time period when production can be sold at a profitable price.

2. Determine the adaptation of selected vegetable crops throughout the production season in the region.

B. Develop production practices and determine the feasibility of competitively producing specific vegetable crops on family farms in areas within the three-state region.

1. Evaluate seasonal succession of vegetable production using planting dates and different varieties to lengthen the potential marketing season. Improve cultural practices for currently produced and new horticultural crops which show potential for commercial production in the Southeast. This would include the development of production budgets.

2. Investigate alternative cropping systems to more efficiently utilize land resources during the total growing season. Implications relative to risk management will be considered.

3. Determine optimum economic yield that can be consistently maintained for specific vegetable crops in intensive cultural systems.

4. Delineate geographic areas within the region where economic production of specific vegetable crops can be profitable.

C. Evaluate alternative markets for new and expanded production of selected horticultural crops, including international markets.

1. Identify existing market channels and institutions involved with horticultural commodities in both fresh and processed forms.

2. Determine the structural and institutional requirements for expansion of existing markets and for gaining entry

into new markets, regardless of magnitude of production. Cooperative arrangements will be studied.

D. Develop and disseminate specific recommendations on expanded production of vegetable crops.

   1. Develop detailed literature, including programs for micro computers, regarding what to produce, when and where to market, and expected returns.

   2. Conduct workshops and symposia to inform interested persons and groups of the research findings and implications.

IV. Basic Procedures:

The proposed research is for a two-phased, three-state effort. The project will be centered in South Carolina with work in Georgia and North Carolina on a subcontract basis. Phase I will encompass field trials at seven primary sites; at subsites of the Plymouth and Fletcher branch stations in North Carolina; two subsites of the Coastal Georgia Station, and at the Coastal (Charleston), Pee Dee (Florence), and Simpson (Clemson) stations in South Carolina. Market analysis will also be carried out by agricultural economists at Clemson, Georgia, and N.C. State to determine the market potential of various vegetable crops. Biological and economic research dealing with integrating vegetable and traditional crops such as soybeans, cotton, and tobacco, will be conducted at a central site in South Carolina.

Phase II of the research will be based on the results of the earlier phase. Each of the three states will research specific problems that become evident during Phase I. Also, there will be programs to begin the dissemination of results through publications and workshops in the three states involved. Efforts will be made to include representation from the 1890 Schools on advisory committees.

V. **Personnel**:

SY:

Agricultural Economics (years 1-5)	2.0
Horticulture (years 1-5)	2.0
Plant Pathology (years 2-5)	.1
Entomology (years 2-5)	.1

Graduate research assistants:

	Year 1	Years 2-5
Horticulture	6	6
Ag Econ	4	4

Technician:

	Year 1	Years 2-5
Horticulture	4	4
Agricultural Economics	1	1

Part-time Labor:

	Year 1	Years 2-5
Horticulture	24	24

VI. **Timetable**:

Brief Objective	Year 1	2	3	4	5
A.1 Market window identification	X				
A.2 Geographic adaptability	X				
B.1 Seasonal succession	X	X	X	X	X
B.2 Cropping systems	X	X	X	X	X
B.3 Economic yield	X	X	X	X	X
B.4 Area delineation			X	X	X
C.1 Market analysis		X	X	X	
C.2 Market potential			X	X	
D.1 Literature development	X	X	X	X	X
D.2 Educational efforts		X	X	X	X

VII. **Budget**:

FY-85	FY-86	FY-87	FY-88	FY-89
$288,090	$600,000	$600,000	$600,000	$600,000

This initial budget request for FY-85 was $600,000. Funding provided was $288,090 ($300,000 minus $9,000 federal administration and $2,910 small business).

GRANT PRE-PROPOSAL FOR THE CONTINUANCE OF THE PROJECT

"Economic Survival and Agricultural Adjustment in the 1980's: An Investigation of Alternative Cropping Systems in the Southeast"

Traditional farming businesses in the Southeastern United States are again experiencing an adverse profit outlook for 1985. Although this gloomy situation exists, numerous vegetable producing enterprises in this region were profitable in 1984 and appear to have a bright prospect for 1985.

This research project is designed to analyze the economic and horticultural potential of vegetable crops in the three state region of Georgia, North Carolina and South Carolina. The major contribution of this study will be development of a capital resource base to aid in the economic survival and adjustments necessary to maintain this region's agricultural base.

Research efforts to date are in the initial phase of the project. Given the time of notification of the grants acceptance all efforts have been concentrated in developing preliminary economic information and beginning the first year's planting phase for the 1985 research effort.

PROGRESS TO DATE

Economic Analysis

The economic sections of this project have concentrated on analyzing market windows for 12 selected vegetable commodities. Preliminary study suggests that windows do exist but, vary in length and by areas within the region. This analysis also suggests that some windows occur at times when production would be consistent with growing agronomic crops. Consequently, farm income supplementation by vegetable crops is possible within this region. Further research is progressing to verify the existence of 13 more market windows. This information will be used to guide horticultural new crop selection trials in 1986.

Two computer models are being developed to evaluate: 1) the seasonal competitive advantage of vegetable crops across the three state region, and, 2) individual grower criteria for the utilization vegetable crops in their *farming operation.*

The first model concentrates on determining which crops provided the greatest level of return to a growing area under various levels of expected prices, yields, growing conditions, cultural practices and soil types. The objective of the second model is to develop alternative on farm cropping scenarios to improve farmer's cash flow position. The scenarios address the risk questions associated with price and yield variations and capital limitations. These models will provide information on which vegetable commodities might be best suited for growers in specific areas and how an individual grower would need to adjust his resource base to include vegetables in his farming operation.

In addition, research efforts to analyze how the vegetable markets work are being addressed. A list of fruit and vegetable handlers in South Carolina has been assembled and computerized for identification and anlaysis. A similar list is currently being compiled for North Carolina, Georgia, and Florida. During the summer of 1985, a survey of first handlers will be conducted in order to determine the structure of the existing markets available to producers. The objectives of this survey are: 1) to determine the commodities currently being handled, 2) to estimate the current volume of selected vegetables, and 3) to evaluate the physical and institutional requirements for expanded sales from new production.

Preliminary results indicate a need for an expansion of the fresh market analysis to include produce purchasing agents in the major population centers. Additional effort will also be needed to investigate the potential for expanded sales to the processing market.

Horticultural Analysis

Horticultural research, to provide sound information on which to base the expansion of an industry, requires more than one season's data. This is especially true of crop adaptation studies where seasonal weather differences frequently cause shifts in efficacy of production practices.

Seeds and equipment have been assembled for 1985 cropping season experiments with eleven vegetable crops. Seven sites (Adapalgas and Plains, Georgia; Fletcher and Plymouth, North Carolina; Charleston, Clemson and Florence, South Carolina) have been prepared and will each have 400 vegetable plots planted during 1985. Additionally, weed management research involving vegetable/agronomic crop rotations has been initiated at the Pee Dee Research and Education Center located at Florence, SC.

A vegetable research horticulturist at Florence and a vegetable extension horticulturist at Conway, SC, have been added to Clemson University's staff. They greatly enhance the potential for success of this research and its transfer to the farming community.

This research project is just beginning. In fact, the technical proposal was submitted to SEA, USDA in February. Project funding has just begun. Nonetheless, research was initiated in the fall of 1984 in anticipation of funding. It is hoped that by the end of 1985 appreciably more definitive information will be available. We respectfully request the continuation of funding for this research by the 1986 federal agricultural research budget.

SOUTH CAROLINA PANEL ON ALTERNATIVE CROPPING RESEARCH, PEACH TREE SHORT LIFE, AND SOIL CONSERVATION

STATEMENTS OF:

DR. ROBERT L. ANDERSEN, PROFESSOR AND HEAD, DEPARTMENT OF HORTICULTURE, COLLEGE OF AGRICULTURAL SCIENCES, CLEMSON UNIVERSITY

DR. B.H. ROBINSON, PROFESSOR AND HEAD, DEPARTMENT OF AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY, CLEMSON UNIVERSITY

DAVID L. ALLEN, REPRESENTING THE SOUTH CAROLINA ASSOCIATION OF CONSERVATION DISTRICTS AND A FARMER FROM HARTSVILLE, SC

Senator THURMOND. I will give a very brief overview of these gentlemen. I would now like to introduce three gentlemen from South Carolina who will also address important agricultural issues: Dr. B.H. Robinson, who is on my right, Dr. Robert L. Andersen on my left, and Mr. David Allen.

Dr. Robinson is the head of the Department of Agricultural Economics and Rural Sociology in the College of Agricultural Sciences at Clemson University in South Carolina. He has a distinguished background in agricultural economic research and has done extensive work in teaching.

Dr. Andersen is the head of the Department of Horticulture in the College of Agricultural Sciences at Clemson University. Dr. Andersen is also an experienced educator and research scientist. Under the direction of these two outstanding gentlemen, Clemson University has been conducting research to improve the economic situation of our farmers with particular attention being given toward solving agricultural problems experienced in the southeast region of our Nation. These gentlemen will be presenting testimony today concerning alternative cropping research and the peach tree short life problem.

Mr. Allen, a farmer in Darlington, SC, is commissioner of the Darlington Conservation District. Mr. Allen is here today to present testimony in support of funding for the Soil Conservation Service.

Mr. Chairman, I appreciate your allowing these gentlemen to address the committee today, and I am confident that their testimony will be beneficial to the members of the committee in your efforts to prepare the fiscal year 1986 agriculture and related agencies appropriation bill.

I won't take more of your time. I thank you very much, Mr. Chairman, for your courtesy.

Senator MATTINGLY. Thank you very much, Senator Thurmond, the President pro tem of the Senate. It is always an honor to have you here to introduce distinguished guests from South Carolina.

Senator THURMOND. I am very pleased that you are presiding today. Georgia is a sister State to South Carolina, and many of our people are kin. They are all friends, and the Savannah River is just an imaginary line that divides us; we are all similar people. We have similar problems, and I am sure some of your decisions will be very helpful to the southeast area of the Nation.

Senator MATTINGLY. Thank you very much.

Dr. Andersen and Mr. Allen and Dr. Robinson, you can submit your full statements for the record and then, of course, you know what the time limitations are for giving your testimony. We would be happy to receive them. Whoever would like to be first, be our guest.

Dr. ROBINSON. To reiterate, my name is Bob Robinson. I am head of Agricultural Economics and Rural Sociology at Clemson University, and I do appreciate very much the opportunity to appear before this very important committee as it begins it deliberations on the appropriations bill. I realize and support the diligent efforts of the committee to seek ways to reduce the budget, to control Government expenditures and replace Government knowledge in the areas where they will have the greatest impact.

I believe that the project that I am going to report on offers the potential in terms of those criteria. This project is entitled "Economic Survival and Agricultural Adjustment in the 1980's: An Investigation of Alternative Cropping Systems in the Southeast."

The project was funded for the first year during fiscal year 1984–85, and I am here to seek second year funding of this important effort. The funds sought under a special competitive grant are to be used to augment funds from the three participating State universities—that is, Clemson University, North Carolina State University, and the University of Georgia—in the efforts they have underway to seek solutions that will aid southern farmers to adjust to changing economic conditions.

Farm conditions, as you are well aware, are bad, and they are getting worse. Farmers are searching for ways simply to survive. Many farmers will not survive, but we have a basic responsibility to assist farmers through this adjustment period and to help preserve the basis of our food and fiber system. The universities are reallocating their resources and adjusting their resources in efforts to seek alternatives and to provide information and analysis for farmers to make sound decisions. We are seeking your help in order to augment those resources.

Agriculture is experiencing one of the most serious financial crunches that it has since the Great Depression. The situation seems to deteriorate daily. A large proportion of farmers are having debt repayment problems, particularly medium-sized family farmers. Additionally, agricultural credit institutions are experiencing serious financial problems. Farm debt, for example, has increased four-fold during the 1970's, an increase which was twice the amount of the total farm debt in 1970.

Additionally, the number of farms with debt-to-asset ratios in the 40- to 70-percent categories and 70-percent-and-above categories is in alarming proportion. Cash flow is simply not sufficient to service a debt of this magnitude. It has been estimated that one-third of the farms in the United States have debt-to-asset ratios of over 40 percent. USDA estimates approximately 18 percent. Nonetheless, there is only one conclusion which can be drawn: These troubled farms are in serious trouble and account for over 50 percent of the total farm debt.

South Carolina's agriculture and the agriculture in the Southeast is in no better condition than in the rest of the country. In fact, it may be worse because of poor yields and higher production costs for the Southeast, particularly for traditional crops. In the testimony I submitted, I gave data relative to the debt-to-asset ratio positions and the income positions of these farms.

Lower soil fertility in the Southeast has resulted in lower yields than in other major producing areas. Particularly from traditional crops because of the warm, humid climate and the continuous recropping of years, farmers tend more to augment fertility and to control insects. Decreasing profitability in agriculture has placed the reliability of the farm structure in serious jeopardy, and we are in an area where, particularly in the coastal States, there is a predominance of small farms, farms that are trying very desperately to adjust to the situation.

As you are well aware, Mr. Chairman, the economic environment of our region has changed dramatically over time, and southern agriculture has adjusted to those changes. A similar look has been pointed out in the testimony submitted that the change in crop alternatives between cotton and soybeans is a staggering example. But in the process of that change, some of these adjustments have been devastating to individuals involved, because of their failure to anticipate and to plan for changing economic conditions.

It is viewed that there is some mechanism that needs to be discovered in order to avoid the extreme rates placed upon farmers in their decision process. As in the past, farmers in the Southeast are seeking to adjust, and vegetable production and horticultural crops are viewed as an alternative that would help many farmers remain in business. There are a number of reasons why this is true in our area: Land, labor, capital, and management all favor an increase in vegetable production. Laborers are unemployed or underemployed in many farms because of mechanization for traditional row crops. Land is available. Vegetable enterprises could potentially make profitable use of these resources. Additionally, Southeast farmers in recent years have invested heavily in irrigation systems, systems that were to make them more competitive in the production of traditional crops of corn and soybeans with many of their competitors. This particular equipment has served to aid that purpose but has also opened up the alternative for vegetable production and rotation with and complements to the traditional crops.

The question is, does the Southeast have a comparative advantage in the production of at least some horticultural crops? The growing season is long, and there is an availability of land. There is additionally an available amount of labor. There is close proximity to major markets on the east coast.

Historically, the Southeast produces vegetables and small fruits, but researchers desperately need to develop improved production procedures to realize the highest yield possible in the Southeast. Population is increasing in our area; yet the area itself is a deficit producer for most vegetable and small fruit crops. If vegetable crop production is to be expanded, there is a critical need for research to evaluate the production systems and marketing alternatives associated with processing and with increased sales in the population centers of the Eastern United States.

The fragile economic and financial conditions of many farms demand that reliable information be made available before they can make these changes and before universities can, in fact, be in a position to recommend such changes. The fear is that changes will be made in the absence of reliable and sound analyses which will permit farmers to make sound adjustments in their economic systems and prevent an exacerbation of the economic situation which currently exists.

The three States in this project—North Carolina, South Carolina, and Georgia—have designed a project that will provide both biological and economic information critical to design alternative vegetable crops, as both complements and substitutes for traditional cropping patterns.

Major questions are answered. For example, if certain crops can be produced, can they be marketed at a profit? Second, what is the competitive position between the Southeast, particularly between the three States mentioned, and other areas of the country in terms of vegetable production? Does the climate and location of local markets provide the Southeast a competitive advantage as it is assumed in vegetable production, or is it a myth that can leave farmers with poor decisions?

Do necessary marketing institutions and facilities exist to handle an increased volume of production? If not, how can they be developed? How do vegetable crops compete with or complement traditional cropping systems? How might they, in effect, affect the cash flow and the ability of farmers to repay debts?

Providing farmers with answers to these questions is an important element in the development of the region's overall ability to adjust to changing economic conditions. The project was funded last year at a level of $300,000. Because of additional work that needs to be done in the area of economics that I delineated a moment ago, we respectfully request that the fiscal year 1986 budget for this important project be increased to $400,000.

I appreciate very much the opportunity to appear before this important committee and discuss this, which I consider to be an important project. I hope that I have conveyed that what we are proposing is not a method to insulate southern agriculture from the forces of the market, but rather to seek your support to conduct the necessary analysis and provide critical information as southern agriculture seeks to adjust to a changing economic environment.

Thank you very much.

[The statement of Dr. Robinson for the record follows the oral testimony of this panel.]

Senator MATTINGLY. Thank you.

Are there others who have testimony?

REMARKS OF DR. ROBERT ANDERSEN

Dr. ANDERSEN. Yes, sir, thank you.

I am Robert Andersen, the department head at the Department of Horticulture at Clemson, South Carolina. I appreciate the opportunity to appear before you.

I have to admit to testifying somewhat off the point by this opportunity; however, I do want to present testimony about another special competitive grant, one that has been funded already for five different funding periods. We are seeking funding for a sixth period. It is a biological problem which we have termed Peach Tree Short Life in South Carolina. Senator Thurmond has already indicated it does affect Georgia and other States in the southern region. We have accomplished a good bit in this project already. A report has been provided for the record about this progress over the 5-year period.

I want to comment that my education is from a land grant university. I am pleased that it provides me a basis for my work, which I appreciate and enjoy. I have worked for 13 years in the horticultural food industry in the Midwest that Mr. Chiles spoke to this committee about earlier—in other words, the peach industry across the country— and for the last 3 years in South Carolina, associated with the peach industry.

Before I begin testimony about peaches, per se, I would like to digress for a moment to talk about horticultural crops and the fact that they look good in the southern region to a certain extent.

Dr. Robinson has already presented some testimony about that, about questions that are in front of us that need to be resolved. I would only like to amplify on that and say that not all farming is bad. There are some areas where things look good. Those things tend to be in the intensive farm crops that provide fruit and vegetables and nuts; ornamental plants that are taking care of the demographic shift that is coming to the Southeast and their need for turf; turf for tourism, turf for lawns that are needed for Florida; also, ornamental plants for their residences. These businesses are, at the current time, profitable.

We have an existing melon industry, an existing pickling cucumber industry, and an existing tomato industry in our States that most years have a fairly sound profitable picture. I think that it is good to know that there are some bright prospects there.

We also think there are some bright prospects in agriculture and horticulture.

I want to emphasize a few things about Peach Tree Short Life, then, if I could. The industry currently is in a situation where we have 4 million trees in the ground in South Carolina, making us the leading peach producing State, potentially, in the United States, with 45,000 acres attributed to this crop. It should be generating $60 to $80 million per year in farm grain growth value, but instead, it has been under half of that for the last 3 to 4 years, due primarily to weather problems of hail and cold weather that Mr. Chiles has already spoken about to the committee.

I know that we need to continue to grow horticultural crops on the best sites that we have available in the United States. The Southeast has some of those sites, and although we have been having a great deal of difficulty with weather recently, we think that we need to continue to emphasize planting these crops in our region.

I want to turn, then, to the specific disorder of Peach Tree Short Life and tell you that we have now learned that the primary cause of this problem is a microscopically small nematode, or small worm, the ring nematode, that we are trying to learn how we can live with. We don't expect to be able to eradiate this small worm. We expect to have to develop biological strategies to work with it.

We have lost a nematicide that was working effectively for us in the control of this nematode problem. Dibromochloropropane was giving excellent control in the nematodes when used as a preventive Peach Tree Short Life control method. However, it no longer is allowed to be used, and alternative chemicals are less effective and more costly.

We want to employ biological methods instead of having to rely so heavily on pesticide-oriented work.

To do that, we need to know more about the epidemiology of this particular nematode. It is interesting that we have learned in our research that there is a fungus that attacks and lives off of these nematodes. We would like to determine whether or not we could use this fungus as a biological control mechanism. We also have found certain groundcover plants that could be grown under the trees that suppress the growth of this nematode. We would like to investigate them further.

However, we think that the long-term solution that the Southeast must look to for control of this is resistant rootstocks that are resistant to the attack of the ring nematode.

To do this, we have to learn more about the ring nematode itself, as well as determining which sources of genetic resistance to it might allow us to develop a rootstock that we can use. It is our intent to conduct biological research that will lead to the suppression of this nematode.

We don't believe that we will eradicate it. We do believe we will have to live with it. That is really true of most pests that man has encountered with domesticated crops and domesticated animals. To be able to do this, we respectfully request that the fiscal year 1986 budget include a special competitive grant for $200,000 for continuation of research on the Peach Tree Short Life problem.

I appreciate the opportunity to present this testimony, sir.

[The statement of Dr. Andersen for the record follows the testimony of this panel.]

STATEMENT OF DAVID ALLEN

Senator MATTINGLY. Thank you very much.

Mr. Allen, did you have a statement?

Mr. ALLEN. Mr. Chairman, my name is David Allen. I am a farmer from Hartsville, SC.

I have been a commissioner for the Darlington County Conservation District since 1967. I have served as the president of the South Carolina Association of Conservation Districts and chairman of the State Land Resources Commission.

I am here in support of a continued national commitment to soil and water conservation. This can best be accomplished by maintaining the Soil Conservation Service as a strong agency of the Federal Government. The passage of Public Law 46 in 1935, creating the Soil Conservation Service, is most assuredly among Congress' highest achievements in our Nation's history.

I can personally attest to the importance of the Soil Conservation Service in assisting land users to reclaim and restore the landscape of my State and the Nation. The soil and water conservation effort over the past 50 years is one of America's greatest success stories. Because of a national commitment to soil and water conservation and the resultant care given to the land by its people, our Nation remains strong and the soil productive.

I feel that it is imperative that Congress continue to support that commitment expressed in the declaration of policy of Public Law 46, which was enacted in April 1935.

I would like to emphasize the following words from the act. "It is hereby declared to be the policy of the Congress to provide permanently for the control and prevention of soil erosion."

The Soil Conservation Service has faithfully carried out its responsibility. It has been successful because it works with legally constituted conservation districts managed by grassroots leaders and maintains a close cooperative relationship with State soil and water conservation agencies such as the State Land Resource Commission in South Carolina. This unique partnership and team approach has made the Soil Conservation Service one of the most effective and efficient agencies of the Federal Government.

The concept of the Soil Conservation Service working through the conservation districts was a milestone in bringing Government and the private sector together to achieve a common goal.

I think it is noteworthy to mention that no one in Government or the private sector has come up with a better idea since 1935. Never in our Nation's history has so much been accomplished voluntarily in such a short time at such an agreeable cost to the Federal Government.

Fifty years ago, my State and much of the Nation was on the brink of disaster because of uncontrollable erosion and depleted soil. The scarred landscape remains as one of our most unpleasant memories.

The creation of the Soil Conservation Service and conservation districts was just in time to help save the Nation from national disaster. The healing process that has taken place has been appropriately described as a miracle on the land.

It is my belief, and I think I speak for the majority of grassroots America, that one of the most urgent challenges and responsibilities facing Congress today is to recommit the Nation to a policy of continuing to provide for the control and the prevention of erosion.

This Nation has had 50 years of experience in soil and water conservation. We have the technical expertise of the Soil Conservation Service, the voluntary leadership of the districts, the willingness of landusers to apply conservation measures as well as new technology, and a public who recognizes the need for soil and water conservation as one of our Nation's greatest assets.

Since the passage of the Clean Water Act, the Soil Conservation Service, State conservation agencies, and conservation districts have become the backbone of the current nonpoint pollution control movement which is so important to our Nation's water quality.

We have made progress in soil and water conservation. The problems of erosion and flooding demand continued efforts because of land use changes and, more importantly, the uncontrollable forces of nature. Much remains to be done.

Mr. Chairman and members of the committee, for the sake of America, I urge you to take leadership in maintaining the budget of the Soil Conservation Service at its present level in fiscal year 1986 until such time as the national economic situation will allow additional increases.

Reducing the national debt is important. Maintaining a strong national defense is necessary. But protecting and conserving our soil and water is essential. Because of the present problems of the agricultural economy, continued Federal support for soil and water conservation could well determine the destiny of our Nation.

Thank you very much, Mr. Chairman.

[The statement of Mr. Allen for the record follows the oral testimony of this panel.]

Senator MATTINGLY. Thank you very much.

I would just like to add that peaches and vegetables are an important crop in my State, too, in Georgia. Our growers have really benefited tremendously, I think, from the research at Clemson. I hope that we can find ways to adequately continue these important efforts to provide the basic research and economic analysis. As this budget process goes along, we will see what happens.

Obviously, it moves slower, but sometimes that is a good thing. I appreciate you all coming today and testifying.

Thank you.

[The prepared statements of Dr. Robinson, Dr. Andersen, and Mr. Allen follow:]

STATEMENT OF B.H. ROBINSON

Mr. Chairman, Members of the Committee, my name is Bob Robinson, and I am Head of the Department of Agricultural Economics and Rural Sociology at Clemson University. I appreciate the opportunity to appear before this committee and speak on behalf of a project important to agricultural adjustment in the Southeast.

The project to which I refer is entitled, "Economic Survival and Agricultural Adjustment in the 1980's: An Investigation of Alternative Cropping Systems in the Southeast." This project was funded for the first year during FY 1984/85 and I am here to seek support of a second year's funding for this important effort. The funds sought under a special competitive grant are to be used to augment the efforts underway in three Southeastern Universities (Clemson, N. C. State, and Georgia) to seek solutions that will aid Southeastern farms adjust to changing economic conditions and a changing farm policy environment.

Farm economic conditions are bad and getting worse. Farmers are searching for ways to adjust to a changing environment and survive. Many farms will not survive, but we have a basic responsibility to assist farmers through this adjustment period and to help preserve the basis of our food and fiber system. We at the Land Grant Universities are reallocating our resources to address these critical problems according to the land grant charge. However, our resources are insufficient to meet the need and we are seeking your support to aid in our efforts to seek alternatives and provide the information and analysis required for farmers to make wise and prudent decisions as they seek to survive. In the absence of sound analysis and information, we fear that incorrect and costly decisions based on poor analysis could exacerbate the current financial crisis and lead to further trauma in the agricultural sector.

The remainder of my remarks will be addressed to the current situation, the importance of our proposed research and educational effort, and a brief explanation of our proposed project and its potential contributions to this critical industry in our states.

Agriculture is experiencing a financial crisis unparalleled since the Great Depression. High production costs (particularly interest costs), declining commodity prices, weak demand, and growing commodity stocks have resulted in declining farm incomes and serious cash flow problems for farmers.

The situation seems to deteriorate each day with an increasing number of farm bankruptcies. A large proportion of farms are having debt repayment problems, particularly medium sized family farms. Agricultural credit institutions are also experiencing financial losses and are threatened by the current problems.

Farm debt increased fourfold during the 1970's. Debt increased from $143 to $215 billion from 1980 to the end of 1984. This increase was twice the amount of total farm debt in 1970. Debt/asset ratios have increased from historic levels of about 16% to 22 to 28% depending on whose estimate is accepted.

The number of farms with debt/asset ratios in the 40 to 70% and 70% and above categories has reached alarming proportions. The cash flow generated is not sufficient to service debt of this magnitude because farmers invest in land, the major asset, both as a production input and as capital stock. One study suggests that over one-third of all U. S. farms have debt-to-asset ratios over 40% although U.S.D.A. research indicates that only 18% are in trouble. These troubled farms account for more than 50% of the total farm debt which indicates that there will continue to be some serious debt servicing problems.

After reaching unprecedented levels in the early and mid-1970's, real farm income has declined precipitously in recent years. U. S. agriculture has become less competitive in world markets, which represent about one-fourth of the total market. Production has increased in response to new technology, expansion, government farm programs and falsely anticipated profits. The cost of capital has increased greatly. Annual interest costs alone have increased from less than $4 billion to almost $22 billion in the last 10 years and currently account for over 50% of net cash farm income.

South Carolina's agriculture and agriculture in the Southeast is in no better condition than that of the rest of the U. S. In fact the situation may be worse because of lower yields and higher production costs in the Southeast. The Farm Balance Sheet for Agriculture (Table 1) indicates that the debt to asset ratio in South Carolina deteriorated at about the national level. However the return to equity capital was negative in 1980 and 1983 and only 2.5% in 1981 and 1982. Major field crops in South Carolina have not been very profitable for even the above average farmers in the 1980's, Table 2. Farmers with average yields will not break even in most years. Tobacco as a specialty crop with production controls is the exception but even so several years in the late 1970's were more profitable years than the 1980's.

Lower soil fertility in the Southeast has resulted in lower yields than in other major producing regions. The warm and humid environment of the Southeast is conducive to heavy insect populations. To control insects and augment fertility levels, farmers in the Southeast incur higher production costs than other areas.

Decreasing profitability in agriculture has placed the viability of the family farm structure in serious jeopardy. The coastal states of the Southeast where there is a predominance of farms less than 180 acres are especially vulnerable. Numbers of farms in South Carolina and in other Southeastern states have decreased rather drastically in the past several decades. In 1960 there were about 88,000 farms in South Carolina. In 1983 there were 31,000. With the current financial outlook, it is expected that the number of farms will decrease at even a faster rate. Likewise farm ownership patterns are apt to change. Continued survival of agriculture in the Southeast, characterized by a large number of relatively small farms, is dependent upon the extent to which the industry can adapt to changing policy and economic conditions.

The economic environment in which this region's agriculture operates has undergone substantial change in the past and is likely to experience even more change in the future. For example, average cotton acreage in South Carolina decreased from 862,000 during 1949-58 to 118,000 in 1981 as a result of changing economic conditions. In Georgia, the acreage decreased from over one million acres to 175,000. In North Carolina, the decrease was from 575,000 to 82,000. In the same time period, soybean acreage in South Carolina increased from 175,000 to 1,550,000 acres, in Georgia from 52,000 to 2.2 million acres, and in North Carolina from 52,000 to almost 1.9 million acres. Some of these adjustments have been devastating to the individuals involved because of their failure to anticipate and plan for changing conditions. Economic risk could possibly be reduced by not depending solely on traditional crops but changing to cropping systems that include new crops that have viable markets.

As in the past, farmers in the Southeast are searching for ways to adjust to the changing economic environment. Vegetable production and horticultural crops are viewed as alternative crops that could help them remain in business. There are a number of reasons why this is true. Land, labor, capital and management all favor an increase in vegetable production. Land suitable for the production of vegetable crops is available. On smaller farms labor is often underemployed. There is a surplus of labor in many of the rural areas because of the past mechanization of many crops. Vegetable enterprises could potentially make profitable use of this labor resource and increase the income of both farmers and laborers.

Southeastern farmers have invested in irrigation systems to become more competitive in the production of crops such as corn and soybeans. This equipment has opened up an alternative for larger scale production of crops such as vegetables. Many farmers are finding it difficult to cover the added costs of center pivot irrigation systems and are searching for high value crops which can be multiple cropped with traditional crops within a single season. It appears some vegetable crops produced under irrigation would increase net returns and improve the cash flow of farms.

The Southeast could have a comparative advantage in the production of at least selected horticultural crops. For example, the high level of management necessary for tobacco could also be used for horticultural crops in a double cropping operation. Soils are such that they should be capable of producing yields comparable to many of the current primary horticultural producing areas of the world.

The growing season in the Southeast is as long as 290 days on the coast, dropping to 200 days in the mountainous areas of Georgia and the Carolinas. Three or four plantings of some vegetable crops could be produced in some areas. There is also the potential of multiple cropping systems including horticultural and row crops. The Southeast has transportation advantages in being closer to the populous eastern markets and has established seaports at Charleston, Wilmington, and Savannah for the expanding export markets.

Historically, the Southeast has produced vegetables and small fruits. However, research is needed to develop improved production procedures to realize the higher yields possible in the Southeast. With a few exceptions, such as pickling cucumbers, tomatoes, and sweet potatoes, production has been primarily for fresh market and directed mostly to local consumption.

Population is increasing throughout the Southeast. The area is a deficit producer of most vegetable and small fruit crops. If vegetable crops production is to be expanded, there is a critical need for research to evaluate production systems and marketing alternatives associated with processing and with increased sales in the population centers of the eastern U. S. The development of a vegetable processing industry would also produce added value and induce added employment in the region.

The concern of the consumer with nutrition is resulting in an increased demand for vegetables. The potential for profitable production is favorable not only in the Southeast but nationwide. The basic question is just how competitive can the Southeast be in the production of vegetables and more specifically, which vegetables?

The fragile financial condition of many farmers demands that reliable information be available before they can afford to make these changes and before universities would be in a position to recommend such change.

The three state (S.C., N.C. and Georgia) project is designed to provide both biological and economic information on the feasibility of alternative vegetable crops as both complements to and substitutes for traditional cropping systems. Major questions need answers. For example, if certain crops can be produced, can they be marketed at a profit? What is the competitive relationship between the Southeast, especially S.C., N.C., and Georgia and other areas in vegetable production? Does the climate and location of major markets provide the Southeast a comparative advantage in vegetable production or is this a myth that could lead farmers to poor decisions? Do necessary marketing institutions and facilities exist to handle an increased volume of production? If not, can they be developed? How do vegetable crops compete with or complement traditional cropping systems? How might they affect the cash flow and the ability to repay debts? Will large capital investments be required if farmers in the Southeast are to become more competitive with vegetable producers in other areas?

Providing farmers and agribusiness firms with answers to the above questions is an important element in the development of the region's overall ability to adjust to changing economic times. In addition, existing vegetable producing regions in the U. S. must be considered to determine the competitive position of this region relative to the entire U. S. vegetable industry. Ease of entry and ability to compete over the long run must be assessed to determine the region's overall potential.

Each of these questions addresses a critical area in the development of the vegetable industry. The project was funded during last fiscal year at a level of $300,000. However, the original project needs expansion, particularly in the marketing and economics areas, in order to address the questions dealing with marketing institutions, facilities and competition with other areas. Each issue is critical to predicting a successful venture. Thus we request that the FY 1985/86 budget for this project be increased to $400,000.

Table 1. Farm Balance Sheet and Income Data, Including Financial Ratios, 1976-1982, South Carolina.

		1976	1977	1978	1979	1980	1981	1982	1983
Assets[1]	mil $	4289	4626	4904	5934	6718	6908	6786	6583
Liabilities[1]	mil $	712	780	923	1069	1253	1398	1592	1623
Equity[1]	mil $	3577	3846	3981	4865	5465	5510	5194	4960
Gross income	mil $	937.4	910.0	1082.0	1166.4	1249.0	1276.8	1314.2	1231.9
Production expenses	mil $	748	791.9	878.4	1006.2	1129.7	1209.3	1206.6	1139.0
Net income, unadjusted	mil $	169.4	118.1	203.7	160.3	119.3	67.5	107.5	92.9
Inventory change	mil $	-19.4	+6.7	+27.7	+86.5	-121.4	+69.1	+20.8	-111.4
Net income adjusted for inventory	mil $	170.0	124.7	231.4	246.8	-2.1	136.6	128.3	-18.5
Debt to asset ratio	%	16.6	16.9	18.8	18.0	18.7	20.2	23.5	24.7
Debt to equity ratio	%	19.9	20.2	23.2	22.2	22.9	25.4	30.7	32.7
Debt to net income ratio									
Unadjusted	%	376	660	453	667	1050	2071	1481	1747
Adjusted	%	419	626	399	433	neg.	1023	1241	neg.
Return to equity capital after inventory adjustment	%	4.8	3.2	5.8	5.1	-.04	2.5	2.5	-.4
Average value of farm land and buildings (2/1/83)	$/ac	515	600	653	773	879	930	918	863
Rate of change in average value of farm land and buildings	%		+16.5	+8.8	+18.4	+13.7	+5.8	-1.3	-6.0

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[1] Excludes farm households.

Table 2

NET RETURNS OVER TOTAL COST FOR TOBACCO, CORN, SOYBEANS AND COTTON, 1975-84

YEAR	CROP			
	TOBACCO	CORN	SOYBEANS	COTTON
1975	36.7¢/lb	$0.98/bu	$0.92/bu	2.3¢/lb
1976	43.4	0.67	3.13	12.6
1977	52.8	0.22	2.39	- 2.2
1978	65.6	0.25	2.38	4.7
1979	64.9	0.75	1.76	5.1
1980	46.1	0.35	1.83	12.5
1981	61.0	-0.48	-0.44	-16.7
1982	60.4	-1.13	-1.72	1.7
1983	58.5	0.34	0.71	4.6
1984*	54.3	0.38	-0.86	4.5

* Forecast

Crop Yields:	Tobacco	2,100 lb/ac
	Corn	80 bu/ac
	Soybeans	30 bu/ac
	Cotton	600 lb Lint/ac

STATEMENT OF ROBERT L. ANDERSEN

Mr. Chairman, Members of the Committee, my name is Robert Andersen, and I am Head of the Department of Horticulture at Clemson University. I appreciate the opportunity to appear before this committee.

I want to testify to request continued support of Clemson University's research into the Peach Tree Short Life problem. It has previously been funded through a special competitive grant for five separate funding periods. This would constitute the sixth funding period. The title of our current proposal is "Peach Tree Short Life in South Carolina".

Let me digress for a moment to comment that horticultural crops like fruits, vegetables, and ornamental plants are viewed by many experts as important to the economic well being of Southeastern agriculture. You have heard testimony from my colleague, Dr. B. H. Robinson, which emphasizes this. South Carolina already has well established commercial peach, tomato, and melon and pickling cucumber industries. We also have demographic shifts toward the Southeast continuing, especially in our coastal and Interstate 85 corridor. Hence, real estate development has made lawn turf and ornamental plant nursery businesses profitable. Additionally, turf for golf and increasing aesthetic beauty for tourism continue as a key industry of a somewhat less traditional agricultural nature. And, aqua and mariculture products are increasing.

I have briefly emphasized such economic information so you would know that some of agriculture has a brighter profit picture.

Returning to peaches, unfortunately the last four years have been terrible for peach growers in South Carolina. They have suffered from spring frost, hail, and excessive rain and fruit rot. We have a very demoralized industry. Forty-thousand plus trees on over 45,000 acres should be producing farm gate values in the neighborhood of 60 to 80 million dollars annually. We have not been producing even half of that due to severely poor weather.

As a horticulturist I am keenly aware that specially suited environments are needed o produce most of our crops. Even when we plant these crops in the best sites available the risk in growing them is high. Probably the citrus cold damage in Florida is the best publicized example of what I'm describing. Nonetheless, we must continue to encourage fruit production in the sites which have the lowest risk potential and South Carolina is such a site. We currently have the largest acreage of peaches for fresh market consumption of any state in the United States.

These peach trees have been subject to a disorder scientists have termed Peach Tree Short Life. Through our research cultural practices have been developed such as pruning date, irrigation, and preplant nematicide treatment which help reduce short life symptoms. Other research investigated the role of water stress, phytohormones, insects in the short life complex and developed economic models to determine when to remove declining orchards. Since our research indicates that the presence of ring nematodes is the primary agent for inducing the short life syndrome, we are focusing our future research efforts on this pest.

Peach tree short life is a continuing threat to the health of the Southeastern peach industry. Previously funded research revealed that ring nematodes are a major causative factor inducing the short life syndrome. Nematicides containing DBCP (dibromochloropropane) were excellent for controlling nematodes and preventing peach tree short life but use of DBCP has been cancelled. Alternative chemicals have been found to be less effective and more costly. An on-going survey indicates that over 44 million dollars have been lost to peach tree short life death since 1979 when DBCP was banned. Between 100,000 and 150,000 peach trees died from short life in 1983 and again in 1984 compared to 25,000 to 45,000 trees per year in the 1970's. Orchard surveys show a steady increase in ring nematode counts. South Carolina orchards with ring nematode counts above economic threshold levels rose from 16% of all orchards in 1979 to 56% in 1983.

The remainder of my remarks will address the current proposed research effort which seeks to further learn the most likely strategies which will effect control of ring nematode. However, first let me reemphasize that we now know that the primary cause is a microbial pest which will always be present in the peach agricultural ecosystem. It must be managed. It cannot be totally eradicated. It will mutate and flux upward and then we'll learn new ways of controlling it. This is similar to man's situation in the control strategies for most of his own and his domesticated crops' and animals' pests. This is not to say that the pests have won. It only reemphasizes that we live in balance with nature and only man's greater research into the epidemiology and knowledge of the pest and its interactions offer hope for success. For peaches, you would be investing in the most serious pest problem in the United States, except for the Med Fly.

Our research will focus on biological control measures. We will breed peach rootstocks which are resistant to this nematode. To do this we must work out a test tube approach to growing the pest and then screen candidate germplasm for tolerance. We will develop plant species which can be grown under the shade of peach trees which suppress ring nematode multiplication; and we will develop "stop gap" nematocide applications to slow the short range expansion of this problem until our biological control measures can be implemented.

I provide the general procedures for this research in the next few pragraphs so the record can show the nature of our experiments.

GENERAL PROCEDURES

1. Suppressive Biological Agents.

Environmental factors affecting the survival and growth of the fungus Hirsutella rhossiliensis in the soil will be explored. Organic soil amendments and techniques for improving isolation of the fungus from the soil will be investigated.

Several plant species have suppressed ring nematodes in pot tests. Future studies are needed to determine if such plants can effectively be used to suppress ring nematodes in orchard conditions. If they are effective, horticultural practices will need to be developed to permit their commercial use.

Ring nematode populations in some orchards have been suppressed by mechanisms or agents that have not yet been identified. This suggests that a through search might reveal additional biological control agents. A search for such agents will be undertaken.

2. Identification of Prunus germplasm resistant to Ring Nematodes.

A diverse collection of peach and related Prunus germplasm will be - 5 - screened for resistance to ring nematodes. A search for tolerance (lack of symptom expression even though nematodes reproduce on the roots) will also be conducted since it may be as important in reducing the disease incidence as resistance. The germplasm will also be screened and categorized for resistance to other diseases, insects, and nematodes. Additional experiments will investigate the feasibility of using *in vitro* techniques to screen embryo cultured seeds or meristem cultured plantlets for resistance to ring nematodes. This would provide a more rapid efficient screening method.

3. Mode of Action of Ring Nematodes.

Meristem cultured peach seedlings will be inoculated with ring nematodes. These seedlings will be measured for stress symptoms. Alteration of phytohormones will be measured by liquid chromatography. The production of stress ethylene will be monitored by gas chromatography. The formation of novel stress proteins will be measured by electrophoresis and isoelectric focusing. Diverse Prunus germplasm will be tested for differences in response of these stress symptoms. Selections showing little or no physiological stress will be tested for resistance to short life in greenhouse and field tests.

4. Improvement in Nematicide Applications.

To determine the portion of the rootsystem which needs to be infected with nematodes to induce short life, container grown trees with "split" root systems will have varying proportions of their rootsystems inoculated with ring nematodes. The trees will then be frozen under controlled conditions. The extent of cold injury will be measured by electrical conductivity of bark tissues, tissue browning and tree survival. Different rates of phenamiphos will be applied through drip irrigation systems to orchard tress growing in ring nematode infested soil. Timing and rates of nematicide will be determined. Phenamiphos levels and movement within the tree roots and its fate within the plant will be determined.

PROSPECTS FOR SUCCESS

Control of ring nematodes is a crucial step in the control of peach tree short life. Nematode counts in southeastern peach orchards continue to increase. The few presently available preplant and postplant nematicides have serious limitations because of costs and inconsistent performance. Many may be banned from use in the near future. Effective and environmentally safe methods of ring nematode control are urgently needed to protect the southeastern peach industry. The research plan outlined in this proposal will focus on providing basic information about the biological interactions of ring nematodes and peach trees, it will evaluate promising control strategies and emphasize genetic resistance and biological control approaches which offer long term solutions to the problem.

Thus we respectfully request that the FY 85/86 budget for this project be $200,000.

STATEMENT OF DAVID L. ALLEN

Mr. Chairman and members of the Committee. Thank you for this opportunity to appear before you today.

I am David Allen, a farmer from Hartsville, South Carolina. I have been a commissioner of the Darlington County Conservation District since 1967, and have served as president of the South Carolina Association of Conservation Districts and chairman of the State Land Resources Commission.

I am here in support of a continued national commitment to soil and water conservation. This can best be accomplished by maintaining the Soil Conservation Service as a strong agency of the federal government.

The passage of Public Law 46 in 1935, creating the Soil Conservation Service, is most assuredly among Congress' highest achievements in our nation's history.

I can personally attest to the importance of the Soil Conservation Service in assisting land users reclaim and restore the landscape of my state and the nation. The soil and water conservation efforts over the past fifty years is one of America's greatest success stories.

Because of a national commitment to soil and water conservation and the resultant care given to the land by its people, our nation remains strong and the soil productive.

It is imperative that Congress continue to support that commitment expressed in the Declaration of Policy of Public Law 46 which was enacted in April, 1935:

> Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled, That it is hereby recognized that the wastage of soil and moisture resources on farm, grazing, and forest lands of the nation, resulting from soil erosion, is a menace to the national welfare and that it is hereby declared to be the policy of Congress to provide permanently for the control and prevention of soil erosion and thereby preserve natural resources, control floods, prevent impairment of reservoirs, and maintain the navigability of rivers and harbors, protect public lands and relieve unemployment, and the Secretary of Agriculture, from now on, shall coordinate and direct all activities with relation to soil erosion and in order to effectuate this policy is hereby authorized, from time to time--
>
> (1) to conduct surveys, investigations, and research relating to the character of soil erosion and the preventive measures needed, to publish the results of any such surveys, investigations, or research, to disseminate information concerning such methods, and to conduct demonstrational projects in areas subject to erosion by wind or water.
>
> (2) to carry out preventive measures, including but not limited to engineering operations, methods of cultivation, the growing of vegetation, and changes in use of land;
>
> (3) to cooperate or enter into agreements with, or to furnish financial or other aid to, any agency, governmental or otherwise, or any persons, subject to such conditions as he may deem necessary, for the purpose of this Act; and,
>
> (4) to acquire lands, or rights or interests therein, by purchase, gift, condemnation or otherwise, whenever necessary for the purposes of this Act.
>
> Declaration of Policy,
> Public Law 75-46, April 27, 1935.

I would like to emphasize the following words from the Act. "...it is hereby declared to be the policy of Congress to provide permanently for the control and prevention of soil erosion... from now on..."

The Soil Conservation Service has faithfully carried out its responsibilities. It has been successful because it works through legally constituted conservation districts managed by "grassroots" leaders, and maintains a close cooperative relationship with state soil and water conservation agencies such as the Land Resources Commission in my state. This unique partnership and "team approach" has made the Soil Conservation Service one of the most effective and efficient agencies of the federal government.

The concept of the Soil Conservation Service working through conservation districts was a milestone in bringing government and the private sector together to achieve a common goal.

I think it is noteworthy to mention that no one in government or the private sector has come up with a better idea since 1935. Never, in our nation's history, has so much been accomplished voluntarily in such a short time at such a reasonable cost to the federal government.

Fifty years ago my state and much of the nation was on the brink of disaster because of uncontrollable erosion and depleted soil. The scarred landscape remains among my most unpleasant memories.

The creation of the Soil Conservation Service and Conservation Districts was just in time to help save the nation from a national resources disaster. The healing process that has taken place has appropriately been described as "a miracle on the land."

It is my belief, and I think I speak for the majority of "grassroots" America, that one of the most urgent challenges, and responsibilities facing Congress in 1985 is to recommit the nation to the policy of continuing to provide for the control and prevention of erosion.

This nation has fifty years of experience in soil and water conservation. The technical expertise of the Soil Conservation Service, the voluntary leadership of conservation district officials, the willingness of land users to apply proven conservation measures as well as new technology, and a public who recognizes the need for soil and water conservation, is one of our nation's greatest assets.

Since passage of the Clean Water Act (Public Law 92-500) the Soil Conservation Service, state conservation agencies and conservation districts have become the backbone of the current nonpoint source pollution control movement which is so important to our nation's water quality.

We have made progress in soil and water conservation, but the problems of erosion and flooding demand continued efforts because of land use changes and, more importantly, the uncontrollable forces of nature. Much remains to be done.

Mr. Chairman and members of the Committee, for the sake of America, I urge you to take the leadership in maintaining the budget of the Soil Conservation Service at its present level in FY-1986 and until such time as the national economic situation will allow additional increases.

Reducing the national debt is important. Maintaining a strong national defense is necessary. But protecting and conserving our soil and water is essential!

Because of the present problems of the agricultural economy, continued federal support for soil and water conservation could well determine the destiny of this nation. Our future is in your hands.

Thank you.

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES

STATEMENT OF DR. DAVID CALL, DEAN, COLLEGE OF AGRICULTURE AND LIFE SCIENCES, CORNELL UNIVERSITY, REPRESENTING THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES

ACCOMPANIED BY:

DR. JOHN W. OREN, DIRECTOR, COOPERATIVE EXTENSION, NEW MEXICO STATE UNIVERSITY

DR. CLIVE DONOHO, DIRECTOR, AGRICULTURAL EXPERIMENT STATION, UNIVERSITY OF GEORGIA, ATHENS, GA

DR. JOHN BOWEN, DIRECTOR OF VETERINARY MEDICAL EXPERIMENT STATION, UNIVERSITY OF GEORGIA, ATHENS, GA

DR. ROBERT L. CROM, DIRECTOR OF COOPERATIVE EXTENSION SERVICES, IOWA STATE UNIVERSITY

DR. O.C. SIMPSON, ADMINISTRATOR, 1890 RESEARCH, LANGSTON UNIVERSITY, OKLAHOMA

Senator MATTINGLY. Next will be Dr. David Call. Let me say we will recess at 12:30.

Mr. CALL. Let me just say also that I have a statement for the record which I would like to have entered and made part of the record along with the questions, please.

Senator MATTINGLY. Go right ahead.

Mr. CALL. Thank you, Mr. Chairman.

It is nice to be here representing the College of Agricultural Sciences at Cornell. We represent the National Association of State Universities and Land-Grant Colleges. I have with me colleagues from those various sectors whom I would like to introduce.

Dr. John Oren is the director of Extension of New Mexico State University; Dr. Clive Donoho, director of the experiment station at the University of Georgia; Dean John Bowen, dean of the College of Veterinary Medicine, University of Georgia; Bob Crom, director of Extension at Iowa State University; and Dr. O.C. Simpson, who represents the 1980 land-grant institutions, from Langston University.

We have submitted our written testimony.

[The statement of Mr. Call for the record follows the testimony of this panel.]

Mr. CALL. Our purpose in being here today is to respond, hopefully, to any questions you might have. I want you to understand that the gentlemen here collectively represent the land grant system of the United States which has played such an important role in agricultural life in the rural areas. We feel that our partnership with the U.S. Department of Agriculture is one of the unique things in this Nation. We are strongly supportive of any committee gains and whatever administrative help comes from the Department of Agriculture. I would like to call on my colleagues to state specifically a few of the special concerns which we have. I would start with Dr. Clive Donoho, director of the experiment station at the University of Georgia, who would like to say a few words about our special concern with the President's budget with respect to agricultural research.

Dr. Donoho?

Dr. DONOHO. Mr. Chairman, I will be very brief. I have a written statement I would like to leave with the committee if I might.

[The statement of Mr. Donoho for the record follows the oral testimony of this panel.]

I represent the agricultural experiment stations in the Nation, and our position is that we are very concerned with the level of budget reductions that were recommended in the executive budget. They far exceeded most Federal research agencies in terms of budget reductions, and we think the agricultural experiment stations are one of the main agricultural research forces in this Nation and have done much to provide the technology that is available to present-day agriculture.

We do, Mr. Chairman, appreciate the realities of the present fiscal crisis and large national deficit, but even so, we believe that agricultural research at the State agricultural experiment stations should not take a disproportionate share of the budget cuts. We are especially concerned about the recommendation that the special grants areas of the budget be completely eliminated this year. There are a number of those special grant areas that are national and regional in nature, and we think that they need to be restored. I am referring to programs like integrated pest management, pesticide clearance, pesticide impact assessment, animal health, and germplasm research. Resources must be reinstated, in our opinion, if we are going to continue with a strong agricultural technology base in this Nation.

I would like to close by simply saying I appreciate the opportunity to appear before the committee, and I call on John Bowen, my colleague, to address the impact on animal health in terms of the executive budget.

Dr. BOWEN. Thank you very much.

For the record, I would like to correct my titles. I am director of the Veterinary Medical Experiment Station. I think you might make Dean Andersen a little bit upset.

Dr. CALL. I am sorry.

Dr. BOWEN. Thank you.

It is certainly a privilege to comment on the animal health area, and I would like to commend the subcommittee for their previous support in this area of research. We very much appreciate that. I would like to submit for the record a list of facts related to plant science support versus animal science support. I am very concerned that the executive branch and the USDA keep stating that we have adequate funding for animal health research when, if you look at the detailed information within the budget with regard to the support in these two areas, there is a tremendous discrepancy. Hopefully, the subcommittee would take these facts into consideration in developing their proposals for animal health research funding for fiscal year 1986.

Thank you.

Dr. CALL. Thank you, John. I would also call to the subcommittee's attention that the National Science Foundation is slated for a 7-percent increase in research. This ranges through the other agencies to as much as a 22-percent increase in research funding for DOD. It just doesn't seem right that agricultural research would be cut since it is so important to this economy.

I would like to ask John Oren, director of cooperative extension of New Mexico State University, to say a few words about what the Extension Service is doing to handle this severe problem of financial stress at the local level.

Dr. OREN. Thank you.

Mr. Chairman, on behalf of all of my colleagues in all our States, I am pleased to have an opportunity to come before you and sincerely seek your support for the restoration of the cuts we have sustained in the executive budget and further, that you assist us in our ability to deal with the struggle rural America is having in dealing with the farm crisis. We have been very much distressed in our universities as we try to deal with the kinds of problems facing rural America. We have reallocated, in many cases, State and local funds to address these problems.

We have gone about as far as we can go. As I try to reflect the thinking of my colleagues, I have invited Dr. Bob Crom, a colleague from Iowa, who very recently was involved in a meeting with our Extension directors in the north-central region of the United States and is aware of the current response we have had to problems out there. I have taken the liberty of asking Dr. Crom to tell you some of the things we are being faced with and some of the things we are doing to deal with the distressed agricultural situation.

[The statement of Mr. Oren for the record follows the oral testimony of this panel.]

Dr. CROM. Mr. Chairman, I am very pleased to have this opportunity. I am speaking here on behalf of the 12 North Central States, so to speak, as I talk about examples that come out of Iowa, but I think are not greatly different for the other North Central States, including the two Dakotas, Nebraska, Kansas, Minnesota, Missouri, Michigan, Ohio, and Indiana, as well as Iowa. In those States, I think we are working on several levels to impact the farm financial crisis on what I might call an intervention basis at the moment.

We are working with individual farmers, with microcomputer software to analyze their particular cash flow situation and locate what options might exist to allow them to adjust and stay in farming. We are also working with lenders, attorneys, farm managers, and others who obviously are an important part of that process in trying to provide some understanding and analysis which helps to look further at that situation. We are working with the community and the State level in order to facilitate and coordinate the existing support services that might be out there. This could be everything from the extent of stress management to counseling and employment, and also those services which are important to some of those who have to exit agriculture, without farm income and the like, as a means of helping others stay in agriculture.

We have, in our State, as some of the other North Central States, activated what we call a rural concern hotline which helps identify, for those who call in, sources of help which they might turn to in terms of the type of problem they have, or in some cases, direct kinds of counseling for their particular need.

You might be interested, also, in the fact that this is a joint effort in terms of funding, really, from four basic sources. We are talking about State funding, where States have given additional funding; help out of the million dollars that Congress provided for farm financial management as part of the fiscal year 1984 budget; private sector contributions; the Bankers' Association; the credit banks; the Farmers Home Administration—not private funding, but part of that funding level.

Then as Dr. Oren mentioned, reallocation of our own resources to bring to bear on these efforts. I guess I would just close in saying that while I have talked about the intervention, what we hear is we are saying that there is a need to sustain that. We are not out of the woods yet. Our agri-economists tell us there is going to be a continuing and serious problem. We need to sustain those intervention efforts and turn our attention also to longer run extended efforts to restore profitability to agriculture, and your support with that agricultural profitability effort is very much needed.

Dr. CALL. Thank you, Dr. Crum.

Dr. Simpson, is there anything else you would like to add?

Dr. SIMPSON. In the interest of time, I won't add any testimony.

Dr. CALL. Do you have any questions, Mr. Chairman?

Senator MATTINGLY. I do have some questions. I wish I had time to ask you questions in reference to using computers to find out what the cash flow is.

Needless to say, I have a lot of questions about that.

Dr. CROM. May I furnish you some information about what I was referring to there?

Senator MATTINGLY. Right.

Dr. CROM. I would be very pleased to do so.

Senator MATTINGLY. It would be very well received by the committee.

[The prepared statements of the witnesses on this panel follow:]

STATEMENT OF DAVID CALL

Division of Agriculture

1986 Budget Recommendations

The Division of Agriculture of the National Association of State Universities and Land-Grant Colleges represents the Research, Extension and Instruction programs of this nations Colleges of Agriculture, Forestry, Veterinary Medicine and Home Economics. No group of institutions has been more closely associated with the fabric of rural America for the past century. We are only too well aware of the severe economic stress impacting on the farms and associated business firms we work with. Equally distressing is the impact of this economic disaster on the people who have depended on the food and fiber system for their livelihood.

Our national agricultural economy is undergoing an unparalleled series of economic shocks and structural changes. The internationalization of the American economy in general and agriculture in particular has brought into play new factors that influence agricultural supply, demand, prices, and income. Specialization of agricultural production has brought about an increased dependency on purchased inputs, technology, and credit. Increased foreign competition has become a parallel development to expanded international markets. The world in which our food and fiber system operates is increasingly dynamic and dependent on advanced technology. No segment of the industry can rest on the technology of yesterday and expect to compete successfully.

Today the agriculture and forest products industry in the United States faces a financial crisis not matched since the 30's. Part of the problem stems from the old nemeses of agriculture -- weather, pests and diseases. However, a significant part of agriculture's problem reflects new economic relationships and conditions -- dependency on world markets, high interest rates, and the strong dollar. We continue to face the chronic problems of pest resistance, water quality, and soil erosion, which become more severe during periods of financial stress.

Our institutions are totally committed to working with our many clientele groups to help them survive in the short run and prosper in the long run. In recent years we have reallocated resources to meet changing needs and continue to do so. We view our many efforts as a critical part of the solution to these national problems.

Improved systems of farm management including more emphasis on finance, marketing, pests, and reproductive management are imperative to meet current agricultural problems. The very uncertainty of future challenges requires that we develop a system with adequate capacity and flexibility to respond to new diseases and pests of animals and plants as well as economic changes.

Our research, extension, and teaching efforts are not limited to increasing productivity. Significant efforts are also directed at providing the knowledge base and education programs necessary to achieve the other essential elements of a long term, sustainable food and agricultural policy. For example, human nutrition, environmental quality and biological control of pests are high on our agendas.

The core of our national nutrition research effort is in the USDA and the Land-grant system. For over a half century we have worked to develop and extend reliable nutrition information.

The quality of life in rural America is a special concern of our institutions. We are working in every county and with as many communities as our resources will permit to help rural communities improve their quality of life and adjust to rapidly changing economic situation. Our institutions and especially Extension are conducting extensive programs to help farmers and their families cope with the emotional stresses that accompany current financial problems.

Predicted shortages of scientists, teachers and other agricultural specialists threaten our ability to supply well trained graduates to work in the food and fiber system.

Immediate problems such as budget deficits, trade imbalances, and agricultural financial stress often overwhelm the political process. This situation preclude adequate consideration of the long term solutions which research, extension, and education can provide. While the immediate problems are important and must be addressed, it is essential to find a way to insure the future capacity of our Land-Grant system.

It is with this recognition of basic need for investment in research, extension and teaching that NASULGC recommends the following modifications to the proposed FY 86 Budget. The need is for expansion of these programs not contraction. However, we do appreciate the realities of the national fiscal crisis and our proposal would allow us to maintain most of our important programs, and reallocate some resources to new priorities. Agriculture, the forest products industry and the people of rural America deserve this continuing support.

FISCAL YEAR 1986 APPROPRIATIONS CHRONOLOGY (ACT II)

February 13, 1985

(In Thousands of Dollars)

		FY 1986				
Cooperative State Research Service	FY1985	Executive Request	NASULGC Recommendations	House Bill	Senate Bill	Conference Bill
Hatch Act	$156,484	156,484	164,900			
McIntire-Stennis	13,053	13,053	13,800			
1890 & Tuskegee	23,474	23,474	24,800			
Animal Health (Section 1433)	5,760	-0-	6,000			
Special Grants	28,530	-0-	29,000			
National Research Programs	(19,197)	-0-	(25,766)			
Special Problem Grants	(9,333)	-0-	(3,234)			
1890 Facilities	10,000	10,000	10,000			
Federal Administration	975	150	150			
subtotal (CSRS)	238,276	203,161	248,650			
Competitive Research Grants						
Biotechnology	20,000	20,000	22,500			
Plant Sciences	16,500	16,500	16,500			
Animal Sciences	4,500	4,500	4,500			
Pest Science	3,000	3,000	3,000			
Human Nutrition	2,000	2,000	2,500			
subtotal (competitive grants)	46,000	46,000	49,000			
Total	284,276	249,161	297,650			

FISCAL YEAR 1986 APPROPRIATIONS CHRONOLOGY

Extension	FY1985	Exec Request	NASULGC Recommend.	House Bill	Senate Bill	Conference Bill
Smith-Lever:						
Sections 3b & 3c	241,484	241,484	253,600			
Section 3d:						
EFNEP	60,354	-0-	60,354			
Pest Managment	7,531	-0-	7,531			
Farm Safety	1,020	-0-	-0-			
Pesticide Impact Assessment	1,716	-0-	1,716			
Urban Gardening	3,500	-0-	3,500			
Rural Devel. Center	*(500)	-0-	500			
Farm Financial Management	1,000	-0-	6,000			
D.C. Extension	983	983	1,032			
1890 College & Tuskegee Inst.	17,741	17,741	18,628			
Renewable Resources Extension	2,500	-0-	2,500			
Federal Administration	5,898	4,600	4,600			
Total	343,727	264,808	359,961			
Higher Education						
Competitive Graduate Fellowships	3,000	-0-	5,000			
1890 & Tuskegee Institute	2,000	2,000	2,000			
Total	5,000	2,000	7,000			
Forest Service (Research)	123,433	104,171	123,833			

* Funded under Federal Administration in FY 1985 -- not additive.

SPECIAL RESEARCH GRANTS

(In Thousands of Dollars)

Project	FY 1985	FY 1986 Executive Request	FY 1986 NASULGC Recommendation
Continuing National Rsearch Programs			
Food & Agriculture Policies	156	-0-	156
Integrated Pest Management	3,091	-0-	3,091
Pesticide Clearance	1,440	-0-	2,000
Minor Use Animal Drugs	240	-0-	240
Pesticide Impact Assessment	2,069	-0-	2,600
Rural Development Centers	311	-0-	311
Animal Health Research	6,000	-0-	7,500
Aquaculture Research	518	-0-	518
Germplasm Resources Research	1,000	-0-	1,200
Tropical & Subtropical Research	3,250	-0-	3,250
Rangeland Research	500	-0-	500
New National Research Programs			
Impact Assessment of New Biological Systems	-0-	-0-	1,000
Biological Control	-0-	-0-	400
Soil, Water, and Forest Resource Conservation (including STEEP)	622	-0-	3,000
Special Problem Grants *	9,333	-0-	3,234
Total	28,530	-0-	29,000

* Numerous special problem grants are made to deal with acute problems usually in one state. These problems tend to be of a short term nature, or where the problem persists can be incorporated into the basic program of the Experiment station after a year or two of special funding.

EXPLANATORY NOTES FOR RECOMMENDED INCREASES

I. Research Programs

A. Base Programs (+$10,700,000 million): Base programs includes research funding for Hatch, McIntire Stennis, 1890 research and Animal Health. This increase will offset increased costs and permit maintenance of capacity. It will also facilitate increased research emphasis on 1) basic research for plant and animal agriculture including forestry; 2) Development of advanced integrated technology systems to increase efficiency and improve farm profitability and 3) improve human nutrition, fresh and process food safety and family and community management.

B. Special Grants (+ 29,000,000): Special grants are recommended for funding research impacting specific national and regional high priority areas plus some funding to address selected problems in specific states. The recommendation is basically level funding with FY 1985. Emphasis is given to eleven national programs funded through special grants and three new high priority areas that impact national and regional problems. These new areas include 1) conservation of soil, water and forestry resources; 2) biological control of pests and, 3) the impact assessment of new biological systems.

C. Competitive Grant Program (+$3,000,000 million): This program provides funding for plant sciences, animal sciences, pest sciences, human nutrition and biotechnology. Increases have been recommended for human nutrition and biotechnology. The competitive grant program has wide national support as a funding mechanism to enrich and expand basic research in several fundamental areas important to this nation's agricultural and general economy.

D. Forestry Research (+$19,662,000): In FY 1985, Congress established an $8 million competitive grants program to strengthen fundamental knowledge in basic forest biology and wood science. This program is funded in the USDA-Forest Service appropriation but is being administered by the Office of Grants and Program Systems. The Division of Agriculture strongly endorses this program and recommends that the program be restored and expanded to $8.4 million in FY 86. The Division believes there is great need for continued research in forestry and recommends the forest service research funds be restored to at least last year's level.

II. Extension Programs

A. Maintenance of Base Programs (+$13,003,000): An increase of $12.1 million over the executive budget is requested on Smith Lever 3b and 3c funds. Maintenance of the base programs in agriculture and natural resources, home economics, 4-H youth development and rural resource development is essential in these times of financial stress and economic uncertainty. Approximately one third of the increased funds will be allocated to the enhancement of the farm financial management thrust. This was a $1 million dollar pilot program funded in FY 85 which reached 22 states. The remainder of the funds will be allocated to other high priority efforts identified by the states. Areas such as marketing strategies, policy education, soil and water conservation will be highlighted in many states

The other major adjustment in base programs is a requested increase of $887,000 in 1890 and Tuskegee programs for maintenance of their important programs particularly with small farmers.

B. Restoration of Critical Special Programs (+$83,601,000): The 3d funds are distributed to states to address specific problems. The funding formula for each program is based upon the extent of the problem in each state. The effectiveness of these programs is well documented and continuation is essential if Extension is to respond to these well-identified user needs.

EFNEP (+60,354,000): Adequate nutrition remains a critical national concern, especially for youth and child-bearing mothers coping with reduced incomes. This program provides a scientific base for nutritional needs dictated by maternal conditions and family growth patterns. It strongly encourages the adoption of diet patterns to insure that these needs are met within the family financial constraints.

Integrated Pest Management (+$7,531,000): The Integrated Pest Management Program (IPM) appropriation supports an array of projects targeted to the unique needs of each state. Continuing major concerns about water quality, environmental impact, and farm production costs are dictating new integrated systems approaches to pest management. The elimination of these programs would seriously limit the Extension Service capability in relating to these mounting problems.

Pesticide Assessment (+$1,716,000): Since chemicals continue to be an important suppression tool, continued evaluation of materials being used for suppression is essential to the protection of America's food and fiber products.

In addition, these funds are critical to the ability of the Extension Service to respond to such sensitive issues as the concerns expressed recently over the EDB question.

Urban Gardening (+$3,500,000): A rapidly growing segment of our population lacks an understanding of the inputs and risks associated with the production of food and fiber. This program provides urban youth and adults with the opportunity to grow plants for food and environmental improvement. Their application of agricultural sciences in food production, which draws upon the knowledge of the university, has contributed to general improvement in the diets of the gardeners, enhanced community cooperation, and widespread personal satisfaction for the participants.

Renewable Resources Extension (+$2,500,000): The program to improve productivity of the privately owned forest and range lands would be restored to $2.5 million. Under current management, the forest, range, and wild life resources under private ownership are yielding far less than their potential. With accelerated use of existing technology, the profitability of the resources can be increased and the growing demands upon renewable resources will be met.

Farm Financial Management TO REGAIN FARM PROFITABILITY (+$6,000,000): A special farm financial management initiative of one million dollars was begun in FY 1985. Twenty two states are cooperating on 18 specific projects. This effort must be maintained and expanded to help agricultural producers cope with the difficult economic climate. The Cooperative Extension System is developing educational programs focused on optimum economic returns to farm producers. These programs include multi-disciplinary, integrated systems approaches to improve the profitability of agriculture. Better integration of production, management, and marketing strategies will be achieved by using the resources of a team of Extension specialists and agents.

Farm Safety (-$1,020): Although safe use of agricultural chemicals and farm equipment continue to be important, most states have integrated supporting educational efforts into programming across many disciplines and specialists. Consequently those efforts are being supported beyond the level of these items from state and federal formula funds. It is recommended that one million dollars of this item be re-directed to the needs of farm financial management.

III. Higher Education

The graduate fellowship program initiated in FY 1984 must be continued to provide additional scientists to maintain our nation's capacity to conduct and disseminate basic research in the food and agricultural sciences. Restoration of the fellowship program to the $5 million dollar level of FY 1984 for the third year of the program is necessary to give this program an adequate trial, and to insure continuing commitment to those graduate students already in the program.

While the current level of requested support will be inconsistent with the USDA projected level required to meet food and agricultural needs, it does provide significant emphasis on the critical shortage areas. These areas are agricultural engineering, plant and animal genetics, soil and water sciences, agricultural economics, animal reproduction, food science, human nutrition, and animal health.

Support is needed for strengthening programs in the food and agricultural sciences. The Division supports the $2 million proposal directed to the historically black Land-Grant Colleges, Tuskegee Institute and the University of the District of Columbia. However, a comprehensive program should be considered.

Strong opposition is raised to any legislation that would destroy the historic support for Higher Education funding provided by the Morrill-Nelson program.

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STATEMENT OF CLIVE W. DONOHO, JR.

My name is Clive W. Donoho, Jr. I am Director of the Georgia Agricultural Experiment Stations and Associate Dean of the College of Agriculture at the University of Georgia. I am also Chairman of the Budget Subcommittee of the Experiment Station Committee on Organization and Policy (ESCOP) for FY 1986. It is in this capacity that I appear before you today to comment on the President's FY 86 budget for the CSRS portion of the Science and Education budget of the USDA.

The Experiment Station Committee on Organization and Policy (ESCOP) has examined the Executive FY 1986 budget proposal for the CSRS/USDA and it is of the opinion that changes to these recommendations are imperative if the State Agricultural Experiment Stations are to meet their responsibilities under the law to help sustain and improve the vitality of our country's agricultural system. Our recommendations are complementary to and in agreement with the funding recommendations of the National Association of State Universities and Land Grant Colleges. Specifically, these recommendations include: **(1) a 4.7% increase to the base formula programs; (2) a restoration of 29 million dollars in special grant programs; (3) a restoration of 6 million dollars in animal health funds (1433); and (4) a**

6.5% increase in competitive grant funds for biotechnology and human nutrition.

Mr. Chairman, our national agricultural economy is undergoing an unparalleled series of economic shocks and structural changes. The internationalization of the American economy in general and agriculture in particular has brought into play new factors that influence agricultural supply, demand, prices and income. Specialization of agricultural production has brought about an increased dependency on purchased inputs, technology and credit. Increased foreign competition has become a parallel development to expanded international markets. The world in which our food and fiber system operates is increasingly dramatic and dependent on advanced technology. No segment of the industry can rest on the technology of yesterday and expect to compete successfully. The State Agricultural Experiment Stations System is a powerful system to develop that needed technology for the decade ahead.

FACT: Agricultural research is essential to National Security and to the stability and growth of the U.S. economy.

FACT: Every federal dollar appropriated to the State Agricultural Experiment Stations attracts four to five dollars in non-federal funding to the national agricultural research effort.

FACT: U. S. agriculture could well go the way of automobiles, electronics, textiles, steel, and the rubber industry without continued technological development.

FACT: Agricultural research is a wise investment of public funds paying dividends of 35 to 50% annually.

FACT: The State Agricultural Experiment Stations have the scientific base and commitment to develop appropriate technology to reduce production costs and increase profitability of farmers and ranchers in every state.

FACT: The proposed Executive Budget cuts to the State Agricultural Experiment Stations are much greater than many other federally supported research agencies.

FACT: The State Agricultural Experiment Stations are the only agricultural research agencies with research programs in all 50 states and U.S. territories.

Immediate problems such as budget deficits, trade imbalances, and agricultural financial stress often overwhelm the political process. This situation precludes adequate consideration of the long term solutions which research, extension and education can provide. While the immediate problems are important and must be addressed, it is essential to find a way to insure the future capacity of our State Agricultural Experiment Station System.

It is with this recognition of basic need for investment in research that ESCOP recommends the following modifications to the proposed FY 86 Executive Budget. There is a clear need for a substantial expansion of these programs, not contraction. However, we do appreciate the realities of the present fiscal crisis and the large national deficits. Even so, agricultural research should not take a disproportionate share of the budget cut.

The following is a comparison of the level for funding to CSRS from the FY 85 Appropriations, the Executive FY 1986 recommendations for CSRS, and the ESCOP and NASULGC FY 1986 recommendations for CSRS.

	FY 1985	Exec. 1986	ESCOP 1986
	(in millions of dollars)		
Hatch Formula Funds	156.5	156.5	164.9
McIntire-Stennis (Forestry) Formula	13.1	13.1	13.8
1890 & Tuskegee Formula Funds	23.5	23.5	24.8
1890 & Tuskegee Facilities Funds	10.0	10.0	10.0
Animal Health (1433)	5.7	0	6.0
Special Grants (PL 89-106)	28.5	0	29.0
Competitive Grants (PL 89-106)	46.0	46.0	49.0
Federal Administration	.9	.2	.2
TOTAL	284.2	249.3	297.7

It was previously mentioned that the proposed Executive Budget cuts to CSRS which funds the State Agricultural Experiment Stations were much greater than many of the other federally supported research agencies. Listed below are comparisons of recommended budget levels for several federal research agencies.

Agency	Inc. or Dec. in million $	% Change
CSRS (State Exp. Stas.)	- 38.1	- 13.2
ARS (USDA)	- 4.5	- 1.0
NSF	+ 93.0	+ 7.0
NASA	+ 224.0	+ 6.4
DOD	+ 7,108.0	+ 22.0

Summary and Conclusions

ESCOP recommends a small 4.7% inflationary costs increase for base programs including funding for Hatch, McIntire-Stennis, 1890 Research institutions and restoration of the base program in animal health (1433). It also recommends a restoration of the $29 million in the Special Grants program with emphasis going toward support of those programs that are national or regional in nature. In my view, it is essential that the programs like integrated pest management, pesticide clearance, pesticide impact assessment, and germplasm resources research, etc. be restored. It is further recommended that those special grants dealing specifically with individual states be reduced or phased out when completed and that new special grants be initiated for (1) conservation of soil, water and forest resources; (2) biological control of pests; and (3) risk assessment of new biological systems. Under the competitive grant programs, ESCOP recommends the continuation of the programs in plant sciences, animal sciences, pest sciences, and a $3 million increase in funding for the competitive grant programs for human nutrition and biotechnology.

In closing, Mr. Chairman, we earnestly solicit the support of the Senate Appropriations Subcommittee and we urge affirmative action by this committee on our budget recommendations. Let me express appreciation for the past interest of the Senate in agricultural research programs carried out by the State Agricultural Experiment Stations in this nation. Never before have this nation's farmers needed assistance more in assuring that farmers will continue to have the technology required to compete in the world markets. We feel the State Agricultural Experiment Stations have a very large stake in helping all farmers and all segments of the agricultural industry. I urge you to examine the current recommendation for CSRS in FY 1986 and take the necessary steps to avoid further erosion of the federal commitment to this essential activity for agricultural and economic progress in this nation.

SPECIAL RESEARCH GRANTS

The elimination of the Special Grant Program in CSRS/USDA will have a significant detrimental impact upon the State Agricultural Experiment Stations in this nation. NASULGC strongly supports the continuation of funding to those Special Grants programs that address major regional and national problems. Listed below are brief descriptions of these important programs.

Food and Agricultural Policies

The focus of the research is on the performance of the U.S. Food Production and Distribution System, with particular attention to the implications of structure to performance. Over the past two years, the research efforts have been concentrated on causes of changes and their effects on the present structure of producer-first handler markets and food manufacturing industries; the present organization and coordination of commodity subsectors; and the effects of law on system organization and performance and the effects on alternative legal arrangements.

The grant supports research being conducted at 18 agricultural experiment stations and ERS, USDA. The work is organized and being conducted under North Central Regional Project 117, entitled "Organization and Control of the U.S. Food Production and Distribution System."

Integrated Pest Management

The goal of integrated pest management research is to provide knowledge for the management of major crop ecosystems for effective pest control and to use this knowledge in the development of systems of management that significantly reduce yield losses, increase production efficiency and profitability, optimize economic return to producers and society, and minimize damage to the environment.

Beginning in FY 1985, the National Integrated Pest Management Program funds were awarded on a competitive basis. All State agricultural experiment stations were eligible to compete for funds on priority research identified by the regional and national planning process. This is a new nationwide research effort and the elimination of funding will substantially reduce an important program after only one year of funding.

Pesticide Clearance

Work is underway at many of the State agricultural experiment stations to develop field research data on the efficacy and safety of pesticides, and biological pest control agents, and to ascertain levels of chemical residues in treated foods or feeds to satisfy Federal requirements for registration of these materials for use on minor and specialty crops. The continuation of this program is essential if the U.S. farmer is to have adequate pesticides to grow most fruit, vegetable and specialty crops.

This work is being conducted at most of the State agricultural experiment stations, with those located in California, Florida, New York, and Michigan serving as organizational centers, and also as regional analytical chemical laboratories. The New Jersey station serves as national headquarters and provides liaison with Federal regulatory agencies, industries developing pesticides, and with other Land-Grant Universities.

New National Research Program

ESCOP is recommending the establishment of three new national research efforts to be funded under the Special Grants Program. These new programs include: 1) Impact Assessment of Biotechnology; 2) Biological Control of Pests; and 3) the Conservation and Protection of our nation's soils, water, and forest resources. All three programs are extremely important to our national interest and to the protection of this nation's agriculture.

Special Problem Grants

There are a select few research problems that are state specific in importance or situations where one or two states conduct the major research effort for a region or for the nation. ESCOP recommends that many of these state specific grants be continued, especially if those grants support states that impact the region or a large number of states.

STATEMENT OF JOHN W. OREN

Cooperative Extension--a unique federal-state-local partnership--is a dynamic information delivery system that has evolved through its seventy year history. Created to disseminate useful information and to encourage beneficial economic and social change, Extension has changed and reshaped its own educational programs over the years to relate to the changing times and changing needs of local people. Extension is particularly suited to help people deal with the rapid changes taking place today.

Thomas Jefferson, who dreamed of an educational system similar to land-grant colleges of which Cooperative Extension is a part, would be popping his vest buttons with pride. He would note that Extension teaches people in an informal setting, where they are -- on farms and ranches; in basements of courthouses; in firehouses of local volunteer fire companies; in community centers; in school houses; and, in homes. And, Mr. Jefferson would recognize that Extension agents continue to help people help themselves with real life situations.

The basic mission of the Cooperative Extension Service continues to be the integration and application of useful knowledge from the best minds in land-grant universities, the U.S. Department of Agriculture, and other sources. Extension agents, in virtually every county in the United States, accumulate knowledge from this vast base and mold appropriate pieces into answers to people-problems.

Many farmers, ranchers, other business people, homemakers and young people find that the research-extension system and the County Agents continue to find the answers. Extension does make a difference in their lives, helping people deal with change and improve their quality of life.

Agricultural producers, and many related groups caught in the squeeze between costs and incomes, face tremendous challenges in the struggle to maintain an acceptable standard of living. Farmers and ranchers, who are vital to maintaining the present quality of life for all Americans, are extremely pressed to remain in business. The Cooperative Extension Service system is diligently working to develop educational programs to help agriculture's men and women regain profitability in agriculture and deal with today's very difficult economic climate.

The Cooperative Extension Service has the information to help many people in our country maintain and improve their lifestyles. In addition, people with limited resources in our rural areas and cities continue to find help from the Cooperative Extension Service. However, Extension's teaching resources must remain in place to provide these answers in the country, towns and cities where people live. The Cooperative Extension Service is the only organization that has the knowledge base and the teachers available throughout the nation to continue to help people help themselves.

It is with these points as a framework that the following recommendations for adjustments to the Fiscal Year 1986 Budget are offered:

RECOMMENDED MODIFICATIONS TO FY 1986 EXECUTIVE BUDGET

A -- Smith-Lever 3(b) and 3(c) (+$12,116,000)

A five percent increase in Smith-Lever 3(b) and 3(c) formula funds is proposed. These funds are essential to the basic Congressional mandate of the Smith-Lever legislation. Based on the increase in this category, Cooperative Extension can continue vital programming in such areas as agricultural marketing, effective enterprise analysis, improved management, family financial management, and youth development. Many states have made substantial allocations of resources to help farmers, ranchers and others take advantage of computers and other electronic communications and management tools through the use of state, county and private funds. New funds proposed in the 3(b) and 3(c) categories will help farmers and other citizens deal with the serious and growing problems in the depressed agricultural economy of the 1980's.

B -- Necessary Restoration to Insure Maintenance of Critical and Vital Special Programs

Smith-Lever 3(d) funds are distributed to states to meet critical problems that Congress has directed Extension to address. Restoration of these severe cuts is essential if Extension is to maintain the momentum of the special efforts, and have people fully benefit from past investments. Extension's ability to address changing local needs is greatly impacted by these funds. The 3(d) funds are vital if Extension is to effectively respond to Congressionally-identified critical needs.

1 -- Expanded Food and Nutrition Education Program (EFNEP) (+$60,354,000)

If Cooperative Extension is to continue to develop self-reliance, through proper nutritional habits, of families and individuals, it is essential that the $60,354,000 funded in the Fiscal Year 1985 Budget be restored. Since numerous types of direct support are being withdrawn, it is even more critical that education be provided to help families with proper nutrition and overall family stability. This is of utmost importance for pregnant women and young children. The EFNEP program has clearly demonstrated its effectiveness in helping low-income families improve their diets. A mandated national evaluation of EFNEP clearly shows it to be effective.

2 -- Integrated Pest Management (+$7,531,000)

The elimination of funds for the Integrated Pest Management Program (IPM) would seriously curtail the Extension Service's capability to adequately conduct an array of projects. These projects are targeted at the unique needs of each state as they deal with major concerns about water quality, environmental impact, and farm production costs. Concerns in these areas dictate a highly-effective, integrated, systems approach to pest management. The restoration to the Fiscal Year 1985 Budget level will insure the survival of programs in this vitally-important economic and environmental area.

3 -- Pesticide Impact Assessment (+$1,716,000)

Agricultural chemicals are a vital and important insect-suppression tool. We must continue to evaluate chemical materials used to protect our nation's food and fiber products. Restoration of the Pesticide Impact Assessment line item to the FY 1985 budget level will insure continuing evaluation of agricultural chemicals and help speed up access to information on effectiveness, compatibility, and proper use. Continued support will allow continuation and further development and refinement of this system.

4 -- Urban Gardening (+$3,500,000)

Restoration of the Urban Gardening line item to the FY 1985 budget level will provide urban youth and adults with the opportunity to grow plants for food, environmental improvement and self satisfaction. Continued application of agricultural science in food production contributes to the improvement in diets of gardeners. It will also further enhance community cooperation and create wide-spread satisfaction among participants. This program enables garden programs with a market value of more than $20 million annually.

5 -- Rural Development Centers (+$500,000)

The Rural Development Centers were supported through the federal administration budget in the 1985 budget. Support for these centers in FY 1985 was $500,000. We request these funds be restored as a separate 3(d) item at the FY 1985 level of $500,000. This will allow the centers to continue to provide leadership and conduct technology transfer projects so desperately needed in rural America today.

6 -- Regaining Profitability in Agriculture Through Farm Financial Management (+$6,000,000)

The $1,000,000 provided in the FY 1985 budget served as a vital catalyst to initiate and expand specific programs to meet the needs of financially-distressed farm families in 22 states. Of the many innovative methods implemented, some included counseling centers, hot lines, special workshops and cooperative efforts with lenders and other public agencies. This initial investment has provided a beginning to help cope with the tremendous crisis that exists in American agriculture today. Producers are facing their worst financial crisis in history. The crisis does not stop at the farm gate. All of agri-business and rural communities are endangered because of the lack of buying power of farmers.

Support is solicited to increase the FY 1985 level of $1,000,000 to $6,000,000 in FY 1986 so Extension can further enhance programs to deal with the crisis in agriculture. Thus, we can lessen the increased rates of farms going out of business, assist depressed rural communities and reduce increasing welfare costs. Funding of this request can also help avoid the possibilities that the general public would pay higher food and fiber prices, and result in severe distortions in the availability of some agricultural commodities. By regaining profitability in agriculture, severe negative impacts on the economies of small towns and rural areas across this nation can be avoided, including negative impacts on the banking industry in general and rural lending institutions in particular.

7 -- District of Columbia Extension (+$49,000)

An increase of $49,000 is proposed to cover increased operating costs and improve the District of Columbia's ability to attract and maintain competent staff.

8 -- 1890 Colleges and Tuskegee Institute (+$887,000)

To insure continuation of the on-going programs and enhance program efforts for primarily small farms and limited-resource families served by our 1890 Colleges and Tuskegee Institute, an increase of $887,000 for the 1890 Colleges and Tuskegee Institute is proposed.

9 -- Renewable Resources Extension Act (+$2,500,000)

The Renewable Resources Extension Act of 1978 recognized the critical need to help private range and forest land owners increase productivity of their renewable resources. We urge that funding for the RREA be restored at the FY 1985 level of $2,500,000. We strongly feel the forest, range and wildlife resources being managed by private ownership are yielding far less than their potential. With accelerated use of existing technology, the profitability of these resources can be increased and the ever-growing demand upon renewable resources will be met.

10 -- Federal Administration ($0)

No change from the executive budget proposal is recommended. The necessary additional support for program coordination, national program leadership and organizational relationship responsibilities will be provided to the federal administration through the four percent set aside for administration provided under the Smith-Lever formula.

FISCAL YEAR 1986 BUDGET REQUEST FOR COOPERATIVE EXTENSION
(in thousands of dollars)

Extension	FY 1985	Executive Budget	NASULGC Recommend
Smith-Lever:			
Sections 3b & 3c	241,484	241,484	253,600
Section 3d:			
EFNEP	60,354	-0-	60,354
Pest Management	7,531	-0-	7,531
Farm Safety	1,020	-0-	-0-
Pesticide Impact Assessment	* 1,716	-0-	1,716
Urban Gardening	3,500	-0-	3,500
Rural Development Centers	** (500)	-0-	** 500
Farm Financial Management (Regaining Profitability in Agriculture)	1,000	-0-	6,000
D.C. Extension	983	983	1,032
1890 Colleges & Tuskegee Inst.	17,741	17,741	18,628
Renewable Resources Extension	2,500	-0-	2,500
Federal Administration	5,898	4,600	4,600
TOTAL	343,727	264,808	359,961

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*Many states will continue Farm Safety from existing funds.
**Funded under Federal Administration in FY 1985.

COMPARISON OF FEDERAL
ALLOCATIONS TO STATES FY85-FY86 BUDGET (EST.)

FY85=SL3b,c,d;RREA; 1890's & DC FY86=SL3b&c;1890's,DC	FY85 ALLOCATION		FY86 ESTIMATE		DIFFERENCE	% of Decr in Fed'l Funds	% of Decr for St/ Fed'l Funds
Alabama	$ 10,342,998	$	8,003,119	$	-2,339,879	-22.6%	-8.9%
Alaska	1,228,719		900,497		- 328,222	-26.7	-5.4
Arizona	2,563,212		1,615,084		- 948,128	-36.9	-12.7
Arkansas	7,615,265		5,969,042		-1,646,223	-21.6	-8.1
California	10,059,223		6,066,714		-3,992,509	-39.6	-7.9
Colorado	3,397,781		2,502,582		-895,199	-26.3	-5.6
Connecticut	2,343,025		1,731,606		-611,419	-26.0	-11.7
Delaware	1,618,317		1,313,710		-304,607	-18.8	-10.8
D.C.	943,680		943,680		--	--	--
Florida	7,158,966		4,709,482		-2,449,484	-34.2	-7.7
Georgia	11,031,277		8,249,110		-2,782,167	-25.2	-6.3
Hawaii	1,424,187		1,083,275		-340,912	-23.9	-7.7
Idaho	2,728,223		2,067,191		-661,032	-24.2	-8.6
Illinois	10,993,527		8,179,532		-2,813,995	-25.5	-12.1
Indiana	8,838,795		7,248,299		-1,590,496	-17.9	-6.4
Iowa	8,915,576		7,680,862		-1,234,714	-13.8	-4.5
Kansas	5,778,605		4,824,233		-954,372	-16.5	-3.7
Kentucky	10,954,940		9,122,803		-1,832,137	-16.7	-6.7
Louisiana	8,005,109		5,605,675		-2,399,434	-29.9	-9.4
Maine	2,397,714		1,801,963		-595,751	-24.8	-12.0
Maryland	4,666,211		3,531,137		-1,135,074	-24.3	-7.5
Massachusetts	3,484,245		2,211,186		-1,273,059	-36.5	-14.9
Michigan	9,604,546		7,413,281		-2,191,265	-22.8	-8.7
Minnesota	8,608,871		7,288,549		-1,320,323	-15.3	-4.6
Mississippi	9,421,606		7,260,439		-2,161,167	-22.9	-8.6
Missouri	10,532,721		8,501,002		-2,031,719	-19.2	-7.7
Montana	2,625,984		2,059,199		-566,785	-21.5	-6.9
Nebraska	5,036,967		4,152,639		-884,328	-17.5	-4.7
Nevada	1,268,063		-908,345		-359,718	-28.3	-7.2
New Hampshire	1,661,954		1,313,697		-348,257	-20.9	-9.2
New Jersey	3,755,584		2,384,930		-1,370,654	-36.4	-11.5
New Mexico	2,464,549		1,730,684		-733,865	-29.7	-8.9
New York	11,154,651		7,016,572		-4,138,079	-37.0	-10.1
North Carolina	15,022,688		12,142,684		-2,880,004	-19.1	-6.5
North Dakota	3,375,755		2,835,201		-540,554	-16.0	-5.2
Ohio	11,223,025		8,568,487		-2,654,538	-23.6	-9.2
Oklahoma	6,838,508		5,478,259		-1,360,249	-19.8	-6.4
Oregon	3,813,847		3,041,096		-772,751	-20.2	-5.1
Pennsylvania	11,444,742		8,379,787		-3,064,955	-26.7	-13.0
Rhode Island	1,208,786		836,221		-372,565	-30.8	-19.0
South Carolina	7,688,457		5,857,246		-1,831,211	-23.8	--8.6
South Dakota	3,441,285		2,895,737		-545,548	-15.8	-6.6
Tennessee	11,112,132		8,703,198		-2,408,934	-21.6	-9.3
Texas	18,082,177		12,837,649		-5,244,528	-29.0	-8.4
Utah	1,931,999		1,414,963		-517,036	-26.7	-6.7
Vermont	1,760,858		1,419,240		-341,618	-19.0	-10.2
Virginia	9,447,486		7,535,210		-1,912,216	-20.2	-5.2
Washington	4,530,995		3,513,941		-1,017,054	-22.2	-5.9
West Virginia	4,634,058		3,537,435		-1,096,623	-23.6	-11.5
Wisconsin	8,667,669		7,298,973		-1,368,696	-15.7	-4.3
Wyoming	1,616,097		1,265,802		-350,295	-21.6	-5.9
Amer. Samoa	738,053		675,125		-62,928	-8.5	-8.5
Guam	800,724		717,926		-82,798	-10.3	-6.6
Micronesia	803,158		733,795		-69,363	-8.6	-5.8
Puerto Rico	7,578,065		6,086,277		-1,491,788	-19.6	-12.4
Virgin Islands	783,335		701,321		-82,015	-10.4	-6.5

COUNCIL FOR AGRICULTURAL RESEARCH, EXTENSION, AND TEACHING

STATEMENT OF ROLLAND HERRING, REPRESENTING THE COUNCIL FOR AGRICULTURAL RESEARCH, EXTENSION, AND TEACHING

Senator MATTINGLY. What is your name, sir?

Mr. HERRING. Rolland Herring.

Senator MATTINGLY. OK, Mr. Herring. I will go back to Mr. Sykes later. Welcome to the committee. If you will go ahead and make your testimony part of the record; perhaps now you would like to abbreviate it.

Mr. HERRING. I will try.

Mr. Chairman and members of the committee, I am Rolland Herring from Pennsylvania, and I represent the lay leaders and volunteers on the Council for Agricultural Research, Extension, and Teaching. CARET is the group, as it is called. As their spokesman, I represent all the users of agricultural research, extension, and educational programs across this great country. Our membership is made up of farmers, homemakers, business people, young people in 4-H clubs, homeowners, and many other people in all walks of life who have become the clientele of the Nation's agricultural research, extension, and education programs.

This group which I am representing needs the support of the land grant system. We use the programs offered in many ways, but two ways come immediately to mind: The land grant system has made this country the best producer of food and fiber in the world. Even though we talk of temporary commodity surpluses, we must remain number one in production of foods over the span of the time to the year 2000 and beyond. We must also increase our competitive position so that we can help growing nations overcome many of the problems of inadequate food consumption and malnutrition that persist even in middle income and high income developing countries.

We just can't afford to surrender our number one position in the world. These developing nations are the largest potential growth markets for U.S. agricultural commodities. We know that population growth and demand for food will outstrip the ability to produce enough food over the next several decades, which leads me to my number two thought.

We need nutritious food in the coming years to improve the quality of life. We can only manage to maintain our quality of life and improve it if we can keep the land grant system in place. We must maintain high quality research on insects and diseases and new varieties of seed. We are just on the verge of opening a whole new way of growing food and fiber with research in agricultural biotechology.

I know of no better way the Congress could improve the quality of life in this country and the world than to provide funds for our land grant programs. There is no better way to assure the future population of the world that it will have enough nutritious food available so that we will not starve than to be able to support an increased spending for agricultural research and extension education.

It has been proven many times in the past that public investment for agricultural research and education returns 30 to 50 times more for each dollar invested annually than any other money the Government spends.

So why cripple the horse that is doing the job for you?

The land grant system has, for more than 100 years, enabled us to become the breadbasket of the world. We would like to think our quality of life has improved tremendously. In reality, it has improved, but the job is neither finished nor near completed.

The home economist in our County Extension Office recently had a phone request. The question posed was, "What can I do with two 5-pound blocks of surplus cheese being distributed through the USDA?" We think anyone can make a cheese sandwich, cheese soup, macaroni and cheese, or many other uses for these blocks of cheese, but Mr. Chairman and committee members, I say to you, this lady, who probably had potato chips or cookies and TV-promoted soda with Nutrasweet for breakfast and lunch and was going to McDonald's for dinner has a serious problem. She needs a few lessons in food and nutrition, plus a lesson in how to prepare meals.

The Expanded Food and Nutrition Education Program provides such services to people like the person I just told you about. We in Pennsylvania and all the other States, especially the ones in the urban areas, need this program to be continued. It has been cut out. We need your support.

Low-income families, and yes, even middle- and high-income families, are not utilizing the better diets that could be advantageous to the health of their families.

This program has reached 2.4 million people since 1968 and has proven effective. If we continue this program, we can possibly avoid precipitous health programs that will be far more costly to society.

Agriculture has tried to maintain the present quality of living. Farmers and ranchers are extremely oppressed to remain in business. We need to help them.

The Cooperative Extension Service is diligently working to develop programs to help our agriculture's men and women regain profitability in agriculture and to deal with today's very difficult economic climate. Farm families are facing probably the worst economic disaster since the 1930's. The Extension teaching resources which exist in every county in the Nation has the information to help many people in our country maintain and improve their lives and living conditions. In addition, people and families with limited resources in rural and urban areas continue to find help from our external services.

In similar times in our history, the Extension Service has been called on to help. It will not shirk its responsibility. Its expertise, with teachers throughout the Nation, will continue to help people to help themselves in rural areas.

My father is a tough, hard-working farmer who never liked salesmen who stop at the farm and waste his time trying to sell him something he didn't need. When the county agent stopped by, he always had time, and usually ended up receiving some contructive advice that was practical for his needs.

We just cannot afford to reduce this flow of reliable information that comes from our research stations and is available at every extension office in the Nation. This delivery system is one of the most unique educational systems known. A growing number of county offices now have computers with access to their university or other informational systems which provide answers to problems in short order.

In response to the current crisis, Extension has launched an expanded effort to help financially distressed farmers in more than 23 States. Your support of $1 million funding for 1985 has provided a good beginning for this effort but falls short of the growing needs of farm families in distress. This program has a high degree of acceptance. We feel it is urgent that this program be expanded.

CARET members fully support the continuation of urban gardening in the area. We think it is a very important program, and the market value of produce has been in excess of $20 million annually.

The Renewable Resource Program is on its way to help private range and forest landowners increase productivity of their renewable resources, which will be in demand in the near future.

Our CARET organization is very concerned that our agricultural research will not keep pace with the ever-growing competition in technology produced from foreign countries. Our share of technology was 75 percent a decade ago. It is now about 50 percent. In another decade it will only be 30. We fully support the budget as presented by the National Association of State Universities and Land Grant Colleges for research to maintain our competitive edge.

We are very aware of the need for well-trained personnel to provide manpower in scientific and service areas in agriculture. Severe shortages in some disciplinary areas already exist. Projections of needed manpower for the next 20 years will greatly outnumber our recent efforts to encourage bright young men and women to seek careers in agriculture.

Senator MATTINGLY. Mr. Herring, could you perhaps submit the balance of your statement for the record since we only have 5 minutes left for the last witness?

Mr. HERRING. Yes, sir.

Mr. Chairman, as a member of the CARET committee, we fully support the land grant system. We fully support the budget, and we would appreciate anything that you can do to make this program possible.

Thank you very much.

Senator MATTINGLY. Thank you, Mr. Herring.

I would like to comment. I worked very closely with Arthur Duvall from the University of Georgia who represents the same thought. We thank you for your testimony very much.

Mr. HERRING. Yes, sir. Thank you.

[Mr. Herring's prepared statement follows:]

STATEMENT OF ROLLAND HERRING

Mr. Chairman and members of the Committee, I am Rolland Herring from Pennsylvania and I represent the Lay-leaders and volunteers on the Council for Agricultural Research, Extension, and Teaching (CARET) and as their spokesman, I represent all the users of agricultural research, extension and educational programs across this great country. Our membership is made up of farmers, homemakers, business people, young people in 4-H clubs, homeowners and many other people in all walks of life who have become the clientele of the Nation's agricultural research and extension educational programs.

This group which I am representing needs the support of the "land-grant system." We use the programs offered in many ways, but two ways come immediately to mind: (1) The land-grant system has made this country the best producer of food and fiber in the world and even though we talk of temporary commodity surpluses, we must remain number one in food production over the span of time to the year 2000 and beyond. We must also increase our competitive position so that we can help growing nations overcome many of the problems of inadequate food consumption and malnutrition that persists even in middle-income and high-income developing countries. We just can't afford to surrender our number one position. These developing nations are the largest potential growth markets for U.S. agricultural commodities. This is important for both our economy and the developing countries. We know that population growth and demand for food will outstrip the ablity to produce enough food in the next several decades which leads me to my number (2) thought.

We need nutritious food in the coming years to "improve the quality of life." We can only manage to maintain our quality of life and improve it if we keep the land-grant system in place. We must maintain high quality research on insects and diseases and new varieties of seed. We are just on the verge of opening a whole new way of growing food and fiber with research in agricultural biotechnology. I know of no better way the Congress could help improve the quality of life in this country and the world than to provide funds for our land-grant programs. There is no better way to assure the future population of the world that it will have enough nutritious food available so that it will not starve than to support and increase spending for agricultural research and extension education. It has been proven many times in the past that public investment for agricultural research and education returns 30 to 50 times more for each dollar invested annually than any other money the government spends, so why beat or cripple the "horse" that is doing the job for you.

The "land-grant system," for more than a 100 years has enabled us to become the breadbasket of the world. We like to think our quality of life has improved tremendously. In reality, it has improved, but the job is not finished or near completed. The Home Economist in our county Extension Office recently had a phone request. The question posed was, "What can I do with two five-pound blocks of surplus cheese being distributed throught he USDA?" We think anyone can make a cheese sandwich, cheese soup, macaroni and cheese or think of many other uses for the blocks of cheese. Mr. Chairman and Committee members, I say to you, this lady who probably had potato chips or cookies and TV promoted soda with "nutrasweet" for breakfast and lunch, and was going to McDonalds for dinner, has a serious problem. She needs a few lessons on basic foods and nutrition, plus a lesson in how to prepare some basic meals. The Expanded Food and Nutrition Program provides such services to people like the person I jsut told you about. We in Pennsylvania and all other states, especially the urban areas, need this program to be continued. Low-income families, and yes, even medium, higher-income families are not utilizing the better diets that could be advantageous to the health of their families.

This program has reached 2.4 million families since 1968 and has proven effective. If we continue this program, we can possibley avoid precipitous health problems that will be far more costly to society. Agriculture has changed. We are at another crossroad in history. Many agricultural producers and allied groups are caught in the squeeze between costs and incomes. They face tremendous challenges in the struggle to maintain an acceptable standard of living. Farmers and ranchers, who are vital to maintaining the present quality of life for all Americans, are extremely hard pressed to remain in business. The Cooperative Extension Service system is diligently working to develop programs to help our agriculture's men and women regain profitability in agriculture and deal with today's very difficult economic climate. Farm families are facing probably the worst economic disaster since the 1930's. Extension teaching resources which exist in every county in the nation has the information to help many people in our country to maintain and improve their lives and living conditions. In addition, people and families with limited resources in rural and urban areas continue to find help from our extension services. In similar times in our history, the extension service has been called on to help. It will not shirk its responsibility. Its expertise, with teachers available throughout the nation, will continue to help people help themselves in our rural areas and cities.

My father is a tough hard-working farmer who never liked salesmen to stop at the farm and waste time trying to sell him something he didn't need. When the County agent stopped by, he always had time and usually ended up by receiving some constructive advice that was practical for his need. We just cannot afford to reduce this flow of reliable information that comes from our research stations and is available at every Extension office in the nation. This delivery system is one of the most unique educational systems known. A growing number of county offices now have computers with direct access to their university or other informational systems which provide answers to problems in short order. In response to the current economic crisis, extension has launched an expanded effort to help financially distressed farm families in more than 23 states. Your support of one million funding for 1985 has provided a good beginning effort but falls short of the growing needs of farm families in distress. This program has had a high degree of acceptance. We feel it is urgent that this program be expanded.

CARET members fully support the continuation of Urban Gardening programs which has provided a great measure of self satisfaction for urban youth and adults who have applied agricultural science, improved diets and had an opportunity to grow their own food. The market value of garden produce is reported to be in excess of 20 million annually. Furthermore, it has enhanced community participation and has built better neighborhood spirit and cooperation.

Renewable Resource programs is on its way to help private range and forest land owners increase productivity of their renewable resources, which will be in more demand in the near future.

Our Cooperative State Research Services is developing new systems of research that will have a spectacular explosion of new products and systems that will help to maintain and improve our competitive advantage in producing food and fiber. They are developing the ability to correct genetic defects in plants and animals and will be able to produce plants that will grow in arid and cold climates and also be more resistant to insects and disease. The cloning of superior livestock and genetically assembled hybrid organisms are very real possibilites that can create more efficient and economic advantages to both consumer and producer.

The state experiment stations have undertaken a critical self analysis of every aspect of their research projects to refine and meet the pressing needs of their clientele to maximize the returns of public investment from Federal and State funding.

Our CARET organization is very much concerned that our agricultural research will not keep pace with the ever growing competition in technology produced from foreign countries. Our share of technology was 75% a decade ago and now is about 50%. In another decade it will be only 30%. We fully support the budget as presented by the National Association of State Universities and Land-Grant Colleges for research to maintain our competitive advantage.

We are very much aware of the need for well trained personnel to provide manpower in scientific and service areas of agriculture. Sever shortages in some discipline areas already exist. Projections of needed manpower for the next twenty years will greatly outnumber our recent efforts to encourage bright young men and women to seek careers in agriculture. Federal funds supplemented by state funds are vital to training young people and to encourage young people to seek careers in agriculture. We have been encouraged by your previous actions to initate competitive graduate fellowships for this urgent need. We sincerely hope that these funds will continue so that we can remain competitive in the world of agriculture and not have to play catch-up at some later date.

Mr. Chairman and members of the committee, I appreciate the opportunity to testify before you. As a layleader and CARET representative, I have been closely associated with the budget making process for the past two years. I am fully aware of the painstaking efforts of the Division of Agriculture to present a budget in critical economic times that is inovative, cost effective and more closely attuned to the most needed priorities. I think you will find, as I did, that our leadership in our agricultural colleges has provided a national effort to consolidate the highest priorities and to provide a coordinationg effort for the important challenges facing agricultural research, extension and teaching. We applaud the past efforts of Congress to provide the basic support of our science and technology programs, the development of human skills and improved institutions and policies that have served us well. We think it is essential and most prudent to find ways to insure the future of our nation's number one industry, through support of our Land-Grant college programs. Thankyou.

CARE

STATEMENT OF CHARLES L. SYKES, ASSISTANT EXECUTIVE DIRECTOR, WASHINGTON LIAISON OFFICE, WASHINGTON, DC

Senator MATTINGLY. Mr. Sykes, welcome to the hearing today.

Mr. SYKES. Thank you very much, Senator Mattingly. It is a real privilege to come here once again before this committee representing CARE.

My name is Charles Sykes, I am assistant executive director of CARE in the Washington Liaison Office, and we have submitted the statement to the committee which I think fairly summarizes the positions reporting on our stewardship as one of the principal agencies using title II which, as you know, Mr. Chairman, is the principal way in which our country addresses the malnutrition problems overseas and in the poor countries of the world.

I would just like to add a few additional comments, I think which will be useful for the record of the committee. I know that you have heard a lot about, on several occasions, the success stories that emerge from Public Law 480 countries which originally received food aid and now are buying on the order of about $1.8 billion in agricultural products from the United States. But concurrently, there are countries which are receiving food aid and are also buying from the United States. For instance, the less well-known cases are: Indonesia received about $53 million in food aid, and it then turned around and purchased, on the commercial market, about $410 million in U.S. food commodities. Likewise, Bangladesh, which received about $70 million in Public Law 480, then also purchased about $150 million in U.S. food aid commodities.

Well, the list goes on, Senator. I can certainly submit other examples to you. CARE, along with the coalition of other organizations which manage these Public Law 480 title II programs, have joined a coalition and have presented for the record our recommendations for deliberations on a review of the Public Law 480 title II program, and those can be capsulized in what we call the three M's, the suggestions that we have for your deliberations.

The first one is an increase in the minimum tonnage, which is currently at 1.7 million metric tons annually. Based on projections by USDA, the FAO, and the International Food Policy Research Institute for projections in the poor countries over the next 5 years, there will be a cereals gap of somewhere between 18 million and 22 million metric tons. This is substantially more than the gap that was predicted at the World Food Conference in 1974, which was about 10 million metric tons, of which the U.S. provided about one-half. We believe that this problem, the question of this gap should be addressed by the Senate in its deliberations by this committee in arriving at new projections. It has budgetary implications.

The second M is a request for consideration for multiyear planning by our organizations. We would like to see multiyear commodity commitments in our relations with these countries. This has a number of advantages. It enables us to extract more commitments from those countries in terms of inputs in their health, education, and economic involvement of projects, and we would like to say, "Let's make the program for 3 years, rather than 365 days."

Finally, Mr. Chairman, the third M which we have presented is that there should be some level of monetization permitted amongst the voluntary agencies and the cooperatives which are managing these programs. In particular, we have experience with the cooperatives. The Cooperative League of the United States has a project with using edible oil with the development of production, processing, and marketing cooperatives in India. This has brought about 140,000 small farmers in India into a program under which the oil is monetized and the proceeds are used to develop these cooperatives.

Finally, we would like to thank the committee for its continuing support over the years of the Public Law 480 program which, as you know, goes back over 30 years and just recently had its 30th anniversary. We hope that the committee will take the three M's into consideration when it holds its deliberations on appropriations levels.

Thank you very much, Mr. Chairman.

[The statement of Mr. Sykes for the record follows:]

STATEMENT OF CHARLES L. SYKES

Mr. Chairman, we appreciate the opportunity once again to appear before your Subcommittee to report on our stewardship of the food resources entrusted to CARE as part of our country's commitment to end world hunger and promote development as well as to share with you our views on how future food aid legislation and policy can better address the needs of an ever changing world.

The Board of Directors of CARE which includes many national cooperative, service, farm, labor, and religious organizations, including the NRECA, the Grange, the National Farmers Union, the Credit Union National Association, the Cooperative League of the USA, the Salvation Army, the Adventist, the Baptist, the National Council of Negro Women, the General Federation of Women's Clubs, and the AFL-CIO asked that I convey to you, Mr. Chairman, and the Members of the Committee, our appreciation for the Senate reaching early compromise with the House on the Africa Famine Relief and Rehabilitation Bill. This supplemental emergency Bill sends a number of clear messages to the world: that America cares and that America continues to lead in responding to the tragic drought in Africa.

Mr. Chairman, as the Committee re-examines our long-term food aid policy, there are three factors which we ask the Committee to consider in its deliberations. A coalition of private non-profit organizations, made up of the Cooperative League, the Adventist Relief and Development Agency, World Vision, Catholic Relief Services, and CARE refer to these three factors as the "3 Ms" or the three "musts". The first of the Ms has budgetary implications: it's the need for a graduated increase in the Title II minimum tonnage which currently stands at 1.7 million tons and has been straightlined for the past four years. You will recall, Mr. Chairman, that in 1974, the World Food Council established an annual global food aid target of 10 million tons, with the U.S. providing about half that target. That target of 10 million tons was largely based on the projected cereals gap (1975-80) in the poorest developing countries.

Your Committee weighed in heavily in supporting this objective and, by doing so, U.S. leadership not only pulled up the level of pledges from other donor countries but also brought in new pledges from countries which had never been involved before as donors. Mr. Chairman, as you and the Members of this Committee review the cereals gap projected by USDA, FAO, and IFPRI for the next several years in the poorest countries of the world, you will note that under the most optimistic scenario, the developing countries will need a minimum of 15 million tons annually in food aid, the worst case scenario being about 30 million tons. The leadership clearly remains with the United States in responding to this gap, particularly with reference to establishing higher levels and a more food secure world. To help deal with this gap The President's Task Force on International Private Enterprise has recommended that "the P.L. 480 Food for Peace Program should be at least doubled to help avert starvation and alleviate poverty, expand developing country agricultural markets, and support private sector growth."

The second M factor which we ask the Committee to consider in its deliberations is multi-year commodity commitment. We believe it is important that Title II agreements negotiated by voluntary organizations and cooperatives (like the government to government and World Food Program Agreements) contain multi-year commitments to make commodities available. Multi-year agreements would allow us to plan staffing and other resource requirements more effectively, and to operate more efficiently. Additionally, it would allow us to secure stable commitments from our counterparts in health, education, rural works, and cooperative projects.

The third M we ask the Committee to consider is monetization or the authority to sell and barter Title II commodities. Operating organizations have long recognized that to be allowed flexibility to sell commodities for local currencies in a non-market disruptive fashion overseas would greatly strengthen their programs. Title II sales and barter have led to cooperative and dairy development projects in India, Indonesia, and Jamaica; have allowed CRS and ADRA to move emergency food in Ghana; and have permitted CARE to provide landless women laborers in a Bangladesh Road Maintencance Program with a stable wage - to give but some examples. Similarly, such activities as nutrition education, innoculation, primary health care, de-worming children, and providing potable water are frequently critical to the success of Title II projects. We have demonstrated the effectiveness of such programs. We request the Committee to consider explicit language which would permit PVOs and Cooperatives to sell and barter Title II commodities to better accomplish both developmental and humanitarian objectives as set forth in the legislation.

As you know, Mr. Chairman, the expanded Section 416 authority mandates the use of dairy and wheat and wheat products for distribution to needy people. Distributing these commodities in poor countries to the needy entails substantial costs which could be offset by giving PVOs discretionary authority to sell or barter a portion of the commodities. The money and services generated by this barter and sales provision could be used to defray inland transportation, processing, and nutrition education costs.

Additionally, regarding those Section 416 proposals which clearly raise the income level of the rural poor and in turn create demand for agricultural commodities, we would recommend that explicit language be included for 100% sales. The commodities available under Section 416 could also serve as a bridging mechanism for those countries recently graduated from the Title II Program, do not qualify for Title I because of income criteria, and are faced with serious debt servicing problems, but have well-established health and nutrition intervention programs which reach the poor. Unfortunately, we have not been able to convince the USDA that these represent legitimate uses of 416 commodities.

Based on CARE's field experience over the past 39 years in managing food aid programs, these recommendations would represent a positive restatement of our current food aid policy based on the probable short-term availability of 416 commodities. Commercial markets are not reaching the poorest countries or the poorest people because they simply do not have the currency to express demand.

Mr. Chairman, we would hope that all your deliberations would be guided by S.Con.Res. 138; it provides a beacon, a vision which reaffirms the values and beliefs for which this country stands. Because of the leadership and wealth of the United States, your decisions here will impact on millions of people in villages and communities around the world and in the parliaments and international assemblies. Let it be a message which draws its strength from S. Con.Res. 138.

> Resolved by the House of Representatives(the Senate concurring), That it is the sense of Congress that
>
> (1) the United States reaffirms the right of every person in this country and throughout the world to food and a nutritionally adequate diet; and
>
> (2) the need to combat hunger shall be a fundamental point of reference in the formulation and implementation of United States policy in all areas which bear on hunger including international trade, monetary arrangements, and foreign assistance; and
>
> (3) in the United States, we should seek to improve food assistance programs for all those who are in need, to ensure that all eligible recipients have the opportunity to receive a nutritionally adequate diet, and to reduce unemployment and ensure a level of economic decency for everyone; and
>
> (4) the United States should emphasize and expand its assistance for self-help development among the world's poorest people, especially in countries seriously affected by hunger and malnutrition, with particular emphasis on increasing food production and encouraging more equitable patterns of food distribution and economic growth; and such assistance, in order to be effective, should be coordinated with expanded efforts by international organizations, donor nations, and the recipient countries to provide a nutritionally adequate diet for all."
>
> -As passed by the Senate
> September 16, 1976, by voice vote

Thank you, Mr. Chairman. We would like to extend an invitation to you and the members and staff of the Subcommittee to visit some of our projects overseas. You will find that our management and accounting system for both commodities and funds is second to none, and that these resources are monitored until used or expended. I will be happy to answer any questions you may have.

SUBCOMMITTEE RECESS

Senator **MATTINGLY**. Thank you for your testimony, Mr. Sykes. That brings this morning's hearings to a close. We will meet again this afternoon at 2 o'clock in this same room to hear further from nondepartmental witnesses. Until then, the subcommittee will stand in recess.

[Whereupon, at 12:31 p.m., the subcommittee was recessed, to reconvene at 2 p.m., the same day, in room SD–124.]

(AFTERNOON SESSION, 2 O'CLOCK, WEDNESDAY, APRIL 17, 1985)

NONDEPARTMENTAL WITNESSES

SUBCOMMITTEE PROCEDURE

Senator ABDNOR [presiding]. The subcommittee will come to order.

This afternoon, we will continue hearing nondepartmental witnesses concerning the fiscal year 1986 budget request of the programs which come under the jurisdiction of the Agriculture Subcommittee.

The subcommittee welcomes all of you to the hearing and thanks you for being here. Your prepared statements have been received and will be made a part of the record in full.

I have been asked to remind you that the subcommittee cannot receive any copyrighted material for publication unless the witness has received the permission of the copyright owner to include such material in the hearing transcript of the hearing record. This is done to protect the owner, as well as the subcommittee and the witnesses.

CENTER ON BUDGET AND POLICY PRIORITIES

STATEMENT OF ROBERT GREENSTEIN, EXECUTIVE DIRECTOR

Our first witness this afternoon will be Mr. Robert Greenstein, who is the executive director of the Center on Budget and Policy Priorities.

Mr. Greenstein, we welcome you to the committee. You may proceed in any way you wish.

Mr. GREENSTEIN. Thank you. It is a pleasure to be before the subcommittee. I would like today to discuss the serious funding problems that now face the WIC Program—the special supplemental food program for women, infants, and children—in the immediate future in fiscal year 1985 as well as the funding levels for 1986.

Numerous studies have found a direct link between the WIC programs and the reduction in low-weight births. Low birthweight is one of the leading causes of infant mortality and it is associated with a number of health problems and disabilities among children.

While the WIC Program is highly acclaimed, it remains relatively modest in size. Approximately 70 percent of those women, infants, and children eligible are not reached by the program, and about 200 U.S. counties remain without a program.

The need for WIC has grown much more acute in recent years. The official census data show that from 1979 to 1983, the number of children below the age of 6 who live in poverty jumped 51 percent. Today one in every four American children below age 6 is poor.

Moreover, two of every five Hispanic children below age 6 and one of every two black children below age 6 are poor.

It is in this context that the Office of Management and Budget's handling of the WIC appropriation is so disturbing. Under OMB actions, it now faces caseload reductions of a high magnitude. Several hundred thousand low-income pregnant women and children under risk will have to be removed from the program in coming months if this program is not helped in the near future.

Last fall, the Congress appropriated approximately $1.5 billion for the WIC Program. But the administration is planning to release only $1.424 billion this year. The remaining $76 million would not be made available.

In the conference last year, the conference divided the $1.5 billion into two pieces: $1.254 billion for the first 10 months of the year, from October through August 1; and the remaining $246 million from August 2 through September 30, with the proviso on the $246 million that it was to be released upon submission of an administration budget request.

The conference was clear in its intent that the $1.254 billion would be fully utilized in the first 10 months of the year and that the program be operated at a $1.5 billion annual rate as so states the statement of managers. The conference was clear that the monitoring of the 10-month period was just that—for 10 months; it was not to be spread into August and September. OMB, however, has not followed this directive. Instead, it has funded the program at less than the $1.254 billion annual rate for the first 9 months of the year. This is being done to accumulate unused funds until June, spread them into August and September, and keep the overall budget below the level Congress intended.

Specifically, the Department, at OMB's direction, has allocated fiscal year 1985 appropriated funds at an annual rate of about $1.4 billion during the first period of the year. In addition, while the remaining portion of the 10-month appropriation will be made available in July, it will be combined with drastically reduced spending levels for August and September. Instead of providing the $246 million appropriated for these 2 months, OMB is releasing only $169 million. This will, unfortunately, have profound effects on the program. A number of States have already begun to reduce caseloads. Other States have short cutbacks in the coming months.

There are two problems here: First, the level of funding being provided to the States for the first three fiscal quarters is not sufficient to maintain caseloads in many areas. Second, the level of funding the administration will provide for the fourth quarter, July through September, is so low that an additional caseload reduction of over 200,000 persons will be required this summer.

The funding levels now being provided are not sufficient for two reasons: First, the program is experiencing some significant increases in food costs. Last month, both of the major infant formula companies announced price increases of 5 to 7 percent. These price increases were neither anticipated nor planned for by USDA and formula comprises 25 percent of overall WIC food cost.

In addition, orange juice prices are higher than anticipated due to the winter freeze in Florida. Egg prices are also above the levels USDA forecast in their formula. Juice and eggs comprise one-half of all the WIC food costs.

For this reason alone in some States, the current levels are not sufficient to maintain caseloads through June. For other States, the problem is seriously compounded by the fact that many States, trusting that the will of Congress will be followed by the executive branch, have operated the programs this year at their State's share of the mandated $1.5 billion annual appropriation rather than the lower levels of funding USDA actually allocated to them. These States were confident that the congressional directive would be complied with and that the additional funds would be provided. These States face particularly large cutbacks in the near future.

We have learned recently, for example, in recent weeks from discussions with States across the country the following:

At least 10 States have already begun cutting their caseloads. Three have cut back on the amount of food in the WIC Program.

States that have begun to cut caseloads include Arizona, Arkansas, Delaware, Kansas, Maine, Michigan, Minnesota, Ohio, Nebraska, and Pennsylvania.

Arizona is now reducing its caseload by 8,375 participants per month, or more than 25 percent of its caseload. Kansas has implemented plans to reduce its caseload by 57 percent per month.

Many more States in addition to this are now drawing up plans to cut their caseloads but have held back until now to implement these plans in the hope that OMB will alter its policies and release funds, or the Congress would require the release of the full $1.5 billion appropriation. Decisions to reduce caseloads are now closer in many States with each passing week. Last week, for example, at a meeting of State WIC directors from the western region, the FNS western regional administrator strongly urged States in that region to begin cutting their caseloads now.

This problem is serious enough. It will become more severe this summer. Right now USDA has allocated $368 million for for the fourth quarter, only about $340 million will be allocated, a drop of nearly 8 percent—7.7 percent to be precise.

This means approximately 7.7 percent of the caseload—240,000 women, infants, and children—will have to be dropped this summer. This reduction is on top of the other reductions that are now being implemented or will soon be implemented, because even the $368 million funding level is itself insufficient in many areas.

I would also note that some States have told us that in the face of insufficient funds now and the further funding reductions in the summer, they plan to maintain the program at current levels until funding runs out and then to close their doors for the rest of the year if no further funds are provided. This means in some States, there is a risk that there will be no WIC Program at all in operation for most or all of September. While benefits or services in some other federally funded programs can be interrupted for a while, this cannot safely be done in WIC, which reaches pregnant women and young children in the critical stages of growth and development.

The Congress and this subcommittee have a long track record of deep concern for WIC. I hope that action will be taken in the coming weeks to remedy this serious situation.

I would also note that the budget adopted in March by the Senate Budget Committee, as well as the new budget plan agreed to by the White House just before the Easter recess, both assume a full $1.5 billion appropriation level for WIC this year. I hope the Congress will avert a crisis in WIC by providing this $1.5 billion appropriation. This can resolve the problem at no additional cost above what the Congress voted last year and what the new budget package assumes.

Finally for next year, for 1986, I would note both CBO and the Senate Budget Committee assume a current services estimate for WIC at $1.569 billion, but the administration has requested $89 million, or 5.7 percent of the caseload below that amount. That 5.7-percent portion of the caseload equals 175,000 persons, meaning that if the administration's proposal were adopted, approximately 175,000 fewer women, infants, and children will be served next year.

I am very grateful that the new budget plan unveiled by the White House and Senate leadership earlier this month does assume a funding level for WIC at the $1.5 billion services estimate for 1986, rather than at the level the administration originally requested or at a freeze level. CBO reported last month a freeze level would require a caseload reduction of 140,000 women, infants, and children.

Senator Gorton recently wrote in the Budget Committee's report on the fiscal year 1986 budget resolution:

> The WIC Program serves some of the most needy members of our society, and I believe it ought to be permitted an increase at least sufficient to offset inflation and thus to keep assistance levels consistent in real terms.

I would very much agree with Senator Gorton on this point. While I recognize the current budget situation and the deficit make it difficult to fund WIC next year at a level that would allow it to reach a larger proportion of those who qualify, it would be most unwise to reduce the caseload and serve fewer women, infants, and children than the number currently being served.

In recent weeks, data from the Public Health Service of HHS has been released, indicating that the infant mortality rate—which has been declining for a long time in this country—that the rate of decline is now slowing and calling attention to the need for new action in that area. Given that, I certainly hope that both for 1985 and 1986, the Congress will maintain the WIC Program at current participation levels and avoid the participant reduction that now seems so imminent.

Thank you.

Senator ABDNOR. Thank you, Mr. Greenstein.

I have to agree with the figures you are working on, $1.569 billion. I hope it stays at least that high. You know the system better than I do. When we take up that budget resolution starting next week, we will keep your comments in mind. We appreciate your attendance today. I have come here for a limited time. I am going to have to move this along.

I won't bother you with questions at this time, but we thank you for your attendance.

Mr. GREENSTEIN. Thank you, Senator.

Senator ABDNOR. Thank you.

[Mr. Greenstein's prepared statement and questions submitted by Senator Bumpers follow:]

STATEMENT OF ROBERT GREENSTEIN

Mr. Chairman, it is a pleasure to appear before the Subcommittee again. I am Robert Greenstein, director of the Center on Budget and Policy Priorities here in Washington. The Center is a nonprofit research and analysis organization that is supported by foundations and that focuses on federal budget and policy issues affecting low and moderate income families. Previously, in 1979 and 1980, I served as Administrator of the Food and Nutrition Service at USDA.

I would like today to discuss serious funding problems that now face the Special Supplemental Food Program for Women, Infants, and Children (WIC) in the immediate future, as well as WIC funding levels for FY 1986.

The WIC program is one of our most successful social programs. WIC provides prescription food supplements to pregnant women, infants, and young children who are both low income and at nutritional risk. Numerous studies have found a direct link between the WIC program and a marked reduction in the incidence of low weight births. Low birth weight is one of the leading causes of infant mortality and is associated with a number of health problems and disabilities among children.

While the WIC program has been highly acclaimed, it remains relatively modest in size. About 30% - 40% of those women, infants, and children who are eligible are reached by the program. Approximately 200 U.S. counties remain without any WIC program.

The need for WIC has grown much more acute in recent years, due to the sharp increase in poverty among young children. The official Census data show that from 1979 to 1983, the number of children below the age of 6 who live in poverty jumped 51%. Today one in every four American children below age 6 is poor. Moreover, two of every five Hispanic children below age 6 and one of every two black children below age 6 are poor.

It is in this context that the Office of Management and Budget's handling of the FY 1985 WIC appropriation is so disturbing. Due to OMB's withholding of funds the Congress provided the first 10 months of this year -- as well as OMB's request for reduced WIC funding for August and September -- the WIC program now faces impending caseload reductions of a large magnitude. Several hundred thousand low income pregnant women, infants and children at nutritional risk will have to be removed from the program in coming months if this problem is not remedied in the near future.

WIC in FY 1985

Last fall, Congress appropriated $1.5 billion for the WIC program for FY 1985. However, the Administration is planning to release only $1.424 billion of this amount. The remaining $76 million would not be made available. As a result, caseloads would be reduced.

The Administration last year requested just $1.254 billion for WIC in FY 1985, an amount that would have necessitated substantial cutbacks in the program. Both houses of Congress rejected this and voted appropriations at a $1.5 billion annual rate. In conference, because the House declined to provide standard full year appropriations for the food programs, the $1.5 billion was divided into two pieces. $1.254 billion (the amount of the original Administration request) was provided for the first 10 months of the year, from October 1 through August 1. The remaining $246 million was appropriated for the August 2 - September 30, with the proviso that these funds were to be released upon submission of an Administration budget request. This was designed to induce the Administration to request these funds.

The conference was clear in its intention that the $1.254 billion be fully utilized in the first 10 months of the year and that the program be operated at a $1.5 billion annual rate ($1.254 billion over the October 1 - August 1 period is equivalent to a $1.5 billion annual rate). The conferees even took the step of writing into statutory language the directive that "funds shall be apportioned to states based on an annual appropriation level of $1,500,000,000."

Similarly, the Statement of Managers directed that "the program be carried out in such a manner as to fully obligate the $1,500,000,000 appropriated by this Act in fiscal year 1985. Any action to allocate funds inconsistent with a full-year appropriation level for the program of $1,500,000,000 will be an improper withholding of funds."

The conferees thus made clear that the $1.254 billion was for the 10-month period and was not to be spread into August and September. OMB, however, has not followed this directive. Instead, it has funded the program at less than the $1.5 billion annual rate for the first nine months of the year. This is being done to accumulate unused funds at the end of July, spread them into August and September, and keep the program's overall appropriation $76 million below the levels that the Congress intended.

Specifically, the Department, acting at OMB's direction, has allocated FY 1985 appropriated funds at an annual rate of about $1.44 billion over the first three fiscal quarters of the year.* In addition, while the remaining portion of the $1.254 billion 10-month appropriation will be made available on July 1, it will be combined with drastically reduced funding levels for August and September. Instead of providing the $246 million the Congress appropriated for these two months, OMB is releasing only $169.3 million.

Unfortunately, this will have profound effects on the WIC program. A number of states have already begun to reduce caseloads. Other states will start cutbacks in coming months.

There are two fundamental problems. First, the level of funding USDA has provided to states for the first three fiscal quarters is not sufficient to maintain caseloads in many areas. Second, the level of funding that the Administration will provide for the fourth quarter (July - September) is so low that an additional caseload reduction of over 200,000 persons will be required this summer.

1. Funding insufficient for the first three fiscal quarters

The funding levels now being provided are not sufficient for two reasons. First, the WIC program is now experiencing some significant increases in WIC food costs. In March, both of the major infant formula companies announced price increases of 5% - 7%. These price increases were neither anticipated nor planned for by USDA. Formula comprises 28% of all WIC food costs.

Similarly, orange juice prices are higher than USDA had anticipated due to the winter freeze in Florida. Egg prices are also above the levels USDA had forecast. Formula, juice, and eggs together comprise half of all WIC food costs.

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*The Department has also provided some unspent funds from last year.

This problem is seriously compounded by the fact that many states, trusting that the will of Congress would be followed by the executive branch, have operated their programs this year at their state's appropriate share of the mandated $1.5 billion annual appropriation rate -- rather than at the lower levels of funding USDA has actually allocated to them. These states were confident that Congressional directives would be complied with and that the additional funds would be forthcoming. These states face particularly large cutbacks in the near future.

In recent weeks, our Center has been in touch with a number of states across the county. We have learned the following:

- At least 10 states have already began cutting their caseloads. Three states have cut back on the amount of food provided to women, infants, and children in the program.
- States that have begun to cut their caseloads include Arizona, Arkansas, Delaware, Kansas, Maine, Michigan, Minnesota, Ohio, Nebraska, and Pennsylvania.
- Arizona is reducing its caseload by 8,370 participants per month or more than 25% of its caseload. Kansas has implemented plans to reduce its caseload by 5,700 persons per month.
- Pennsylvania plans to reduce its caseload another 14% -- or 21,000 persons -- if additional funding is not forthcoming.

In addition, many more states are now drawing up plans to cut their caseloads -- but have held back from implementing these reductions in the hope that OMB would alter its policies and release more funds or that Congress would require the release of the full $1.5 billion appropriation. Decisions to reduce caseloads in a number of states are now drawing closer with each passing week. Last week, at a meeting of state WIC directors from FNS' Western region, the FNS Western regional administrator strongly urged states in that region to begin cutting their caseloads now.

2. Funding insufficient for the fourth quarter

The problem is serious enough right now. It will become far more severe this summer.

Right now, USDA is allocating $368.2 million per quarter. For the fourth quarter, only $339.9 million will be allocated. This is a reduction of 7.7%.

This means that approximately 7.7% of the caseload -- or 240,000 women, infants, and children -- will have to be dropped this summer. This caseload reduction is on top of the other reductions that now are or soon will be implemented because the current $368.2 million quarterly funding level is itself insufficient.

I would also note that some states have informed us that -- faced with insufficient funds right now and a further funding reduction this summer -- they plan to maintain the program at current levels until funding runs out, and then to close their doors for the rest of the year if no further funds are provided. This means that in some areas, there is a risk that there will be no WIC program in operation for most or all of September. While benefits or services in some other programs can be interrupted for a month, this cannot safely be done in WIC, which reaches pregnant women and young children during critical stages of growth and development.

The Congress -- and this Subcommittee in particular -- have a long track record of deep concern for the WIC program. I hope that action will be taken in coming weeks to remedy this increasingly serious situation.

The budget adopted in March by the Senate Budget Committee -- as well as the new budget plan agreed to by the White House just before the Easter recess -- both assume a full $1.5 billion appropriation level for WIC this year. I urge the Subcommittee to avert a crisis in WIC by providing the full $1.5 appropriation Congress approved last year. This will resolve this problem, and at no additional cost above what the Congress voted last year and what the new budget package assumes.

WIC in FY 1986

The Administration's budget also calls for reductions in WIC in FY 1986. The CBO and Senate Budget Committee FY 1986 current services estimate for WIC is $1.569 billion, but the Administration has requested only $1.480 billion. The Administration's request is $89 million -- or 5.7% -- below the SBC/CBO current services estimate.

5.7% of the caseload equals 175,000 persons. If the Administration's proposals are adopted, approximately 175,000 fewer pregnant women, infants and children at nutritional risk will be served next year.

I am grateful that the new budget plan unveiled by the White House and the Senate leadership earlier this month assumes a funding level for the WIC program at the $1.569 billion current services estimate in FY 1986 rather than at the level originally requested by the Administration or at a "freeze" level. CBO reported last month that a freeze level (of $1.5 billion) would require a caseload reduction of 140,000 women, infants, and children.

Senator Slade Gorton recently wrote, in his additional views published in the Senate Budget Committee's report on the FY 1986 budget resolution: "The WIC program serves some of the most needy members of our society, and I believe that it ought to be permitted an increase at least sufficient to offset inflation and thus to keep assistance levels constant in real terms." (Senate Budget Committee report, March 20, 1985, p. 336.) I would very much agree with Senator Gorton on this point. I recognize that the current budget situation and the deficit makes it difficult to fund WIC next year at a level that would allow it to reach a larger proportion of those who qualify for it. But it would be most unwise to reduce the caseload and to serve fewer women and children than the number currently being reached.

In a rather eloquent Sunday column earlier this year, Haynes Johnson observed that the U.S. still ranks low among industrialized nations in infant mortality and needs to improve and expand -- not to contract -- services designed to improve maternal and child health. I believe the wise and prudent course is not to reduce the WIC program, but to continue to allow it to maintain service levels next year and, over time to reach a gradually increasing proportion of those poor mothers and children at nutritional risk who are in need of its vital services.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

Q: What level of funding would you request for the WIC program for FY 1986 to provide services to all eligible women, infants, and children? Do you think there would be long term budget savings if we invested that amount in the WIC program?

A: It is difficult to come up with a precise number needed to serve all eligible persons. While we know that about 10 million women, infants, and children qualify for WIC on an income basis, we do not know exactly how many also meet the program's "nutritional risk" requirement. At least 7 million -- and probably more -- likely meet both the income and the nutritional risk tests. To serve 7 million persons throughout FY 1986 would cost $3.6 - 3.7 billion.

I do not recommend funding the program at this level -- or anything close to it -- next year. First, it would simply be impossible for the program to grow so fast that it could reach all eligible persons by next year. Second, while I strongly believe the program snould grow to serve more of those eligible for it, the program should not grow so rapidly that it threatens the proper management of the program. That would undermine the program's effectiveness and political support, over the long run.

What I would recommend is a gradual, steady, sustained expansion policy for WIC. Such an approach was incorporated into H.R. 7, a child nutrition authorization bill that passed the House overwhelmingly last year but was never taken up in the Senate. H.R. 7 would have authorized WIC appropriations of $1.7 billion for FY 1986, $1.85 billion for FY 1987, and $2.0 billion for FY 1988. This would allow the program to add about 5% more persons each year -- a very modest rate of growth (actually if the political situation allowed, I would recommend a somewhat greater rate of growth).

Q: The state of Arkansas has made significant progress in the last few years in decreasing the state's infant mortality rate. I am proud to say the state now has an infant death rate below the national average. You have indicated that the state of Arkansas has already begun to cut its WIC caseload. Would you comment on the effects of OMB's handling of the FY 1985 WIC appropriation on Arkansas?

A: OMB's refusal to obey Congressional directives is directly responsible for what is happening in Arkansas. Arkansas is receiving less WIC money than if OMB were releasing the funds duly appropriated by Congress so that the program could operate at a $1.5 billion annual appropriated rate as Congress directed. As a result, Arkansas was forced to implement a policy on March 15 to reduce the number of women, infants, and children in WIC by 3,600 each month. Morever, this is only the first stage of a larger caseload reduction. If OMB continues its planned policy of reducing WIC funding even further this summer, the Arkansas Department of Health plans to cut its WIC program even further. Since OMB will not change its position on FY 1985 WIC funding, it now appears that this unfortunate series of events can be undone only through legislative action by the Appropriations Committees.

March of Dimes Birth Defects Foundation

STATEMENT OF DR. CHARLES MAHAN, CHAIRMAN, HEALTH PROFESSIONAL ADVISORY COMMITTEE AND MEMBER, NATIONAL EDUCATION ADVISORY COMMITTEE OF THE MARCH OF DIMES BIRTH DEFECTS FOUNDATION, WASHINGTON, DC

Senator Abdnor. Our next witness is Dr. Charles Mahan, chairman of the Health Professional Advisory Committee and a member of the National Education Advisory Committee of the March of Dimes Birth Defects Foundation. Nice to have you with us, Dr. Mahan.

Dr. Mahan. Mr. Chairman, I direct a large rural WIC Program in North Florida, and I am also a professor of obstetrics and gynecology at the University of Florida and director of internal and child health for the State of Florida. I would like to present the views of the March of Dimes on the WIC Program.

As you know, the March of Dimes has been involved in the prevention of birth defects for more than a quarter of a century. Back in 1958, they turned their attention to that particular problem, they found that low birthweight was the number one birth defect as far as numbers.

Senator Abdnor. What was number one?

Dr. Mahan. Low birthweight in babies, and that this problem, in particular, is the main one that leads to our being in such bad standing in our infant mortality rate with the rest of the developed nations.

But lately, there has been a lot of publicity on the low birthweight problem. This report that came out from the National Institute of Medicine a couple of months ago is probably one of the most important documents that has been produced about public health in America since the Surgeon General's report on smoking a number of years ago.

It really points out that this measure of health indicator is still an enormous problem in the United States. It points out that we do know what to do about it and that we just really need to get about the business of doing something.

The report also says that nearly 7 percent or about a quarter of a million of the babies born in the United States last year were low birthweight; that means under 5½ pounds.

If we look at infant mortality, which is babies who die in the first year of life, the birthweight of the baby, especially under 5½ pounds, has more to do with babies dying that first year than anything else.

It also contributes a tremendous amount to life-long disabilities in the ones who do survive. Most of this tremendous cost could be avoided by very modest investments in prevention at the present time. Speaking primarily to this report and what it said about the effects of nutrition on birthweight, the panel concluded that good nutrition has a positive influence on birthweight. That is, the more weight the mother gained, the more likely she was to have a big, healthy baby.

Evaluation studies of the WIC Program, looking into this, showed that WIC did increase birthweight among babies in women who were in the program. It also showed that the longer the woman was in the program and was on the WIC foods, the bigger her baby was.

So there was just a very nice direct relationship all along the way. In this report, the panel points out that one of the very important factors in looking better for the United States and doing a better job in preventing infant mortality is to continue to increase funding the WIC Program, because it is such an important foundation stone to solving the infant mortality problem.

WIC has proven to us in the health profession to be one of the best Federal programs ever designed, and it certainly has been shown to help drop the number of low birthweight babies. It provides about $30 a month in food assistance to a pregnant woman, but it also helps attract pregnant women into the health care system. We have seen that occur throughout the United States. One of the important things is to not only give a woman good prenatal care, but also to get her into the system early. WIC has been doing just an amazing job in getting women in early for early care.

Of course, the program also provides nutrition education and counseling, which we hope will carry over after the pregnancy into the way the mother buys her perishable food at home.

The panel says it makes a lot more sense to invest in the WIC Program and in other preventive sources than it is to deal with the very high cost of treating babies in intensive care units. WIC has been shown by the Harvard School of Public Health—and nobody could doubt anything that comes from Harvard—that for every dollar spent, we save $3 down the pike, and the General Accounting Office also showed that WIC was a very effective program.

In Florida, we have finished implementing the first program that is statewide in preventing preterm babies, and the important foundations of this were not only the contributions of the educational materials from the March of Dimes, but the fact that we had the WIC Program going in every county of the State. That gave us a real building block to start the program with. Using Federal moneys in the Internal Child Health Block Grant and using State moneys, we have been carrying out for over a year now the Preterm Birth Prevention Program that already has dropped the number of preterm births in the State-supported patients by 10 percent. This is the first time in about 15 years that Florida's number of small babies has not grown. It does look like these things work.

The Southern States, of course, have a much bigger problem with low birthweight and infant mortality, and the Southern Governors are, themselves, trying to attack this problem aggressively within the next few years.

Senator ABDNOR. Why is that? Why is this more of a problem in the South?

Dr. MAHAN. For a number of years, the South has had the lowest per capita income in the United States. They have invested the least in health services as far as State moneys; they have participated least in Federal programs as far as Medicaid and maternal Federal aid programs; and they were the last ones to implement the WIC Program.

So they are starting way behind the rest of the country. There are lots of bad reasons for it.

I won't speak to the funding because Bob Greenstein did that. I would just like to summarize by saying that the March of Dimes understands and appreciates the concern of Congress regarding the need to reduce the Federal deficit. But we believe and can prove that increased governmental emphasis on preventive health care—even though it is a hard thing to sell to people, it is easier to sell prevention in pregnancy because we can show you results within a year—is all having a good effect.

All of these prevention programs save a tremendous amount of money in the long run. To this end, the March of Dimes recommends a modest increase in the WIC Program, bringing the funding level to $1.7 billion for fiscal year 1986. The WIC Program has been steadily expanded throughout its history and usually has added about 300,000 people every year. With the currently high level of public interest in decreasing infant mortality in the United States coming from almost every quarter, we urge that a modest expansion as proposed by Representative Hawkins be provided so that more of those in need can be reached.

Our goal in Florida, which, as you know, is the most rapidly growing urban State in the Nation, is to reduce our numbers of low birthweight babies by one-half by the end of 1988, which will be 5 years after the program began in 1986.

That means we will have to cut our number of low birthweight babies from 12,000 to 5,000, which is an enormous task. We know that over one-half of all low birthweight babies can be prevented. We can give them a healthier start in life and save the Nation billions of dollars and a lot of grief without that, but we can't do it without a strong WIC Program.

Thank you.

Senator ABDNOR. Thank you, Dr. Mahan.

Senator Bumpers, we are happy to have you here. Do you have any questions you care to ask?

Senator BUMPERS. Thank you very much.

Senator ABDNOR. Do you have any questions you care to ask?

Senator BUMPERS. I haven't had a chance to look this over.

Senator ABDNOR. Dr. Mahan is from Florida. He is chairman of the Health Professional Advisory Committee, is a member of the March of Dimes, and has his own practice.

Senator BUMPERS. What is the effect of the budget proposal that was agreed to at the White House as opposed to what was given last year?

Senator ABDNOR. Mr. Greenstein had a statement here.

Dr. MAHAN. I'm just a doctor.

Senator BUMPERS. Everybody has to have one handicap. [Laughter.]

Dr. MAHAN. That's right.

Senator ABDNOR. Let me say this, Senator. He said, "I am grateful that the new budget plan unveiled by the White House and the Senate leadership earlier this month assumes a funding level for the WIC Program at $1.569 billion current services estimate in fiscal 1986, rather than at the level originally requested by the administration at a freeze level."

The administration froze it where it was last year.

Senator BUMPERS. So according to the previous testimony, the President is asking for a reduction of 5.7 percent in the WIC Program?

Senator ABDNOR. Yes.

Dr. MAHAN. Yes.

Senator BUMPERS. 5.7 percent, doctor, is it Mahan?

Dr. MAHAN. Mahan.

Senator BUMPERS. 5.7 percent, he says, equals a caseload of 175,000 persons. Is that based on the $30 per month per pregnant woman figure?

Dr. MAHAN. I believe it is, yes. I believe so.

Senator BUMPERS. Does this program stand alone, or how is it administered?

Dr. MAHAN. The WIC administrator from Missouri is going to talk next. I think he could speak to that better than I can.

Senator BUMPERS. Mr. Chairman, let me just pass, then, and I will try to direct my questions to the next witness.

Senator ABDNOR. Thank you, doctor. We'll keep rolling along here.

[Dr. Mahan's prepared statement follows:]

STATEMENT OF CHARLES MAHAN, M.D.

Mr. Chairman and members of the committee, I am Dr. Charles Mahan, Professor of Obstetrics and Gynecology at the University of Florida at Gainesville, and Chairman of March of Dimes Health Professional Advisory Committee and a member of the MOD National Education Committee.

Thank you for this opportunity to present the views of the March of Dimes on the Supplemental Food Program for Women, Infants and Children (WIC).

Prevention of birth defects has been the goal of the March of Dimes for more than a quarter century. The March of Dimes was founded by President Franklin D. Roosevelt in 1938 to combat polio. We celebrate this month the 30th anniversary of the conquest of polio by Drs. Jonas Salk and Albert Sabin.

In 1958, the March of Dimes (MOD) turned its attention to the group of diseases which constitutes the nation's single largest child health problem -- birth defects. The MOD defines a birth defect as an abnormality of structure, function or metabolism, whether genetically determined or a result of environmental influence during embryonic or fetal life. Low birthweight is included within this definition. Today, the March of Dimes is a major contributor to such fields as perinatalogy, genetics, prenatal diagnosis and treatment, and education and community services promoting maternal and infant health. With regard to the latter, a special emphasis is placed on reducing the incidence of low birthweight babies.

The subject of low birthweight babies in the U.S. has received a great deal of publicity recently. The publicity has been caused, in part, by a report issued this past February, by the Institute of Medicine (IOM), a part of the National Academy of Sciences. The report, entitled Preventing Low Birthweight, summarizes the findings of an interdisciplinary committee established to study prevention of low birthweight. The March of Dimes is pleased to have been able to be a partial funder of the committee and the dissemination of its findings.

The IOM panel concluded that the prevention of low birthweight could contribute significantly to a reduction in infant mortality in the United States, and, more generally, to improved child health. Some of the report's findings are highlighted in the following data:

o Of the 3.6 million infants born each year, nearly 7 percent or 250,000 are LBW weighing less than 5 1/2 pounds.

o LBW is a leading factor in childhood disability and the greatest cause of death in the first year of life.

o Children born with low birthweight may suffer from slower mental and physical development, respiratory, heart, kidney or nervous system disorders.

o Two-thirds of all infant deaths occur among LBW babies and the incidence of handicap among the survivors is high. In fact, the National Institute of Child Health and Human Development estimates that the direct costs for neonatal intensive care of these infants exceed $2 billion annually.

The IOM panel examined the effect of nutrition during pregnancy on birth outcomes. The panel concluded that good nutrition has a positive influence on birthweight. Evaluation studies have shown that WIC increased birthweight among babies of participating women. The results also seem to indicate that longer periods of participation in the program during pregnancy are associated with greater weight gains. In fact, in its report the panel recommends that "nutritional supplementation programs such as WIC be part of a comprehensive strategy to reduce the incidence of low birthweight among high-risk women and that such programs be closely linked to prenatal care." (1)

The WIC program, by providing nutritional supplemental foods to pregnant women, significantly increases birthweight, thereby reducing the incidence of LBW and its associated complications. WIC is one of the best federal programs available to reduce the incidence of LBW because it is a unique food assistance and health services program. It not only provides food assistance worth approximately $30 per month per pregnant woman, but it also brings WIC participants into the health care system. It may be one of the most successful national strategies to get poor women into prenatal care; the single most important step to having a healthy baby. In addition, it provides nutrition education and counseling which stresses the importance of good nutrition during pregnancy. Each component of WIC contributes significantly to the improved outcome of pregnancy for millions of needy pregnant women.

COST EFFECTIVENESS OF WIC

The MOD recognizes that Congress and the Administration are facing serious deficit reduction problems. To this end, MOD would like to point to the cost-effectiveness of the WIC program.

This cost effectiveness is well documented. A Harvard School of Public Health study concluded that for every $1.00 spent in the prenatal care component of WIC, $3.00 are saved in hospitalization costs as a result of the reduced number of low birthweight infants requiring expensive neonatal care. (2)

In 1984, the General Accounting Office (GAO), at the request of the Senate Agriculture Committee, evaluated the current WIC studies to judge their reliability. Prenatal participation in WIC was related to reductions in the incidence of low birthweight ranging from 16-67 percent. While some of the studies were questioned, GAO concluded that participation in WIC is associated with a 16-20 percent decrease in the proportion of LBW infants born to women eligible for WIC.

WIC and its ability to reduce the incidence of low birthweight is especially important in areas of high infant mortality and low birthweight. Incidence of infant mortality and low birthweight are particularly high in the Southern states. Last year, the Southern governors formed a Task Force on Infant Mortality, headed by Governor Richard W. Riley of South Carolina. Governor Riley was responding, among other things, to the fact that South Carolina has one of the highest infant mortality and low birthweight rates in the country.

The District of Columbia has the highest incidence of LBW at 13.3 percent per 1000 live births, South Carolina is second with a rate of 8.9 percent, followed closely by Mississippi with a low birthweight rate of 8.8 percent. The national average of LBW is almost 7 percent and the U.S. Surgeon General has called for reducing the national average to 5 percent by 1990.

In its report, the IOM concludes that "the birth of LBW infants imposes a large economic burden on our nation by contributing substantially to neonatal mortality, to disability among surviving infants, and to the cost of health care."(3) The report estimates some of the costs associated with health care for LBW babies in terms of initial hospital costs, rehospitalization during the first year, and long-term morbidity costs. The following figures relating to LBW babies come from this report.

o average neonatal intensive care charge per infant is $13,616 (a low estimate).

o a substantial portion of LBW infants are rehospitalized in the first year of life: 38 percent of very low birthweight babies and 19 percent of moderately low birthweight. The cost of this per infant is $6026 and $4650, respectively.

o long-term costs are hard to estimate, but several studies are used in this report. One study calculated the average direct medical costs of caring for a non-institutionalized LBW with activity limitation to be $1405 per child. Another estimated that institutional care for developmentally disabled children is $359,124 per child.

The IOM report panel goes on to recommend that nutrition supplementation programs such as WIC be part of comprehensive strategies to reduce the incidence of LBW among high risk women. "Preventing LBW is an approach considerably less costly, both socially and economically, than additional investment in neonatal intensive care." (4) The MOD strongly supports this recommendation.

The March of Dimes is deeply concerned about the reduction in the funding for the WIC program for FY 85 and the reduction in FY 86 funding proposed by the Administration. While it recognizes the need to address the problems arising from the budget deficit, the MOD would like to re-emphasize the cost-effectiveness of the WIC program. In fact, the MOD recommends that because full funding at the presently authorized level serves less than half of those eligible and in need, the full amount appropriated for FY 85 -- $1.5 billion -- be released and allocated as soon as possible. Without the full funding for FY 85, over 200,000 WIC participants will be cut off the program in August and September, 1985.

For FY 86, the Administration again in its effort to reduce the deficit has recommended cutting the appropriation for WIC to $1.48 billion. This reduction, by the Administration's own estimate, would eliminate 100,000 people from the program. The Congressional Budget Office puts the figure at 175,000. Even a "freeze" at $1.5 billion (the FY 85 appropriation level) would amount to a cut for the WIC program because it would not cover the increases in food costs. In fact, it would mean eliminating 140,000 from the program. At a minimum, the MOD supports a WIC appropriation for FY 86 at at least the current services level calculated by the Congressional Budget office to require an appropriation of $1.569 billion. This would allow the program to continue its present level of serving 3 million women, infants and children.

While the MOD understands and appreciates your concerns regarding the need to reduce the federal deficit, we believe that increased governmental emphasis on preventive health care will save money in the long run. To this end, the MOD recommends a modest increase in the WIC program, bringing the funding level to $1.7 billion for FY 86. Throughout its history, the WIC program has steadily expanded...approximately 300,000 people have been added each year. We urge that a modest expansion (as proposed in H.R. 7 introduced by Rep. Hawkins) be provided, so that more of those in need can be reached.

FOOTNOTES:

(1) Committee to Study the Prevention of Low Birthweight, Institute of Medicine, Preventing Low Birthweight, National Academy Press, 1985, p.233.

(2) Kennedy, E.T., et al. "Evaluation of the Effect of WIC Supplemental Feeding on Birthweight": American Diet. Association Journal, March, 1982.

(3) Summary of Preventing Low Birthweight, p.35.

(4) Summary of Preventing Low Birthweight, p.3.

NATIONAL ASSOCIATION OF WIC DIRECTORS

STATEMENT OF C. RICHARD BLOUNT, DIRECTOR OF THE MISSOURI WIC PROGRAM AND DIRECTOR OF THE NATIONAL ASSOCIATION OF WIC DIRECTORS

Senator ABDNOR. Mr. C. Richard Blount is the director of the Missouri WIC Program and, I might add, he is the director of the National Association of WIC Directors. We welcome you to the committee, Mr. Blount.

Mr. BLOUNT. Thank you, Mr. Chairman.

Mr. Chairman and Senator Bumpers, I am C. Richard Blount. I am the president of the National Association of WIC Directors, and I have been the State director of the Missouri WIC Program since 1976.

I consider it a real privilege to share with you this afternoon in this hearing the association's concern regarding the appropriation of the WIC Program.

We applaud very heartily the past support which you have provided for the WIC Program. Generally, you have treated it with the respect that we believe the program has earned. We believe that those in Congress who have recommended funding authorization for fiscal year 1986 in the amount of $1.7 billion are justified in making such a recommendation.

However, we, too, are very sensitive that there is tension between an expansion of the program and the budget deficit, particularly at this time. We know that reasonable compromises must be made among many commendable programs. Yet we believe that there are bottom lines which we feel the cost of breaching would be greater than the cost saved by breaching.

It is our understanding that the Congressional Budget Office has projected that the minimum appropriation for fiscal year 1986 to maintain current service levels would have to be $1.569 billion. Senator Bumpers has already referred to that as part of the compromise, as did

Mr. Greenstein. We, as an association, believe that the minimum for the fiscal year 1986 appropriation should be no less than that $1.569 billion which would enable us, based on even the projections by the CBO, to maintain current service levels.

There are several reasons why we feel that this would be justified. Even those who advocated modest expansion of the $1.70 billion are also justified.

First, as you know and as you have heard many times before this committee and other committees and read in the professional literature, we believe that the WIC Program is nationally recognized as a program which has achieved its purpose more successfully than most any other program. Dr. Mahan just testified as a physician as to how successful that has been seen from the medical field.

The outcome of the pregnancies have been significantly improved. We think there are many good studies, though individually, none of them might be conclusive in and of themselves. The preponderance of data, I think, gives very clear evidence of success.

The Missouri evaluation, which GAO itself has recognized as being qualitative and credible and was used in the GAO summary, has documented that low birthweight rates for WIC participants are less than one-half of the rates for non-WIC participants in similar groups. This is particularly significant. You have already heard the testimony concerning low birthweights, which leads to infant mortality, the 13th leading cause of death in our country, and that the low-birthweight infant was 20 times more likely to die than the normal weight.

Then in January 1985 in the Journal of Pediatrics, the American Academy of Pediatrics Journal suggests that a study done in Minnesota indicated that participation in the WIC Program will help limit the development of iron depletion and anemia in children. It is a proven success.

Second, we believe it is justified because it is not only contributing to this humanitarian type of benefit, but it has proven itself to be very cost effective. You have heard the reference of three to one, and I have no reason to challenge the integrity of Harvard, either, but being a "show-me State" person, we wanted to see what we could find out in the State of Missouri. We did our own study, and we found that by using Medicaid costs actually billed in the first 30 days compared to the costs of keeping the women on the program during the period of prenatal, the reduction of infant costs during that first 30 days gave us a cost-benefit of 1:1.42. For every dollar we spent in prevention, we actually saved $1.42 in the first 30 days, to say nothing of long-term costs.

There could be a very clear argument made, in my opinion, that when we face the matter of reducing the future deficits, one of the ways you address the deficit problem in the future is to continue to spend your dollar more wisely in prevention today.

Third, the WIC Program has proven to be very effective and is an inducement to bring the risk-inherent mother during her prenatal period into better health care.

As doctors have already indicated through their own studies, prenatal women are coming to services of public health and private health much earlier. The extra time that they are in prenatal care contributes significantly to the outcome, again, of the birth. They are receving more adequate prenatal care.

Not only has WIC successfully proven itself, but, as has already been testified to here today, it has never really reached its full potential of need. The need is as great today as it has ever been. The National Advisory Council on Maternal, Infant and Fetal Nutrition, established by Congress, had in its report in 1980, had in the report of 1982, and it restated again in its report of 1984, that a goal ought to be to serve 50 percent of the potential in need in nutrition at risk. What we did, as we read that particular report for 1984, they simply extended the time from 1985 so that the target date would be 1987. The need was still there and still declared as such.

What we are actually serving is between 35 percent and 40 percent, or 30 percent to 40 percent; it depends on the numbers that you look at. At the same time, it has already been attested to today that the poverty level of children 6 years of age and under has increased by 51 percent since 1979.

Also, the testimony that has been given is also what we have read in the other media. The infant mortality rate which has been going down steadily during the last decade has, within the last year, begun to stabilize and, in some cases, actually has gone back up again.

To compound all of that, we look at the matter, then, of getting enough money to serve even the current caseloads at $1.569 billion, which we recommend. Then the States are confronted with the fact that the infant formula companies for the second time within a year have made significant increases in the cost of formula.

So we are for the $1.569 billion. We question that that would even be enough to maintain current caseloads.

My primary purpose has been to speak of the appropriation for 1986. I think I would be irresponsible if I didn't express the association's concern regarding the manner in which USDA has been allocating the appropriation voted by Congress last year to the individual States this year. Mr. Greenstein has already spoken to that very clearly and in great detail. I simply wanted to endorse his statement, that due to the fact that we are not getting the full appropriation, tens of thousands of women, infants, and children are being taken away from the program.

Arkansas, Mr. Bumpers, is one of those that is cutting back, according to the figures that we have, which Mr. Greenstein pointed out earlier.

Senator ABDNOR. Mr. Blount, I don't want to rush you, but we want to ask questions, and we have got a long schedule.

Mr. BLOUNT. I appreciate it, sir, and I will say that the situation is going to grow worse unless the Senate can do something to help alleviate the situation. We urge your assistance in straightening out the appropriation for fiscal year 1985 and to assure the States that there will be enough money—$1.569 billion at a minimum—to maintain service loads throughout the next year.

Again, I thank you for your assistance. I remember that the $1.5 billion last year was voted. It was approved by an 83-to-4 vote in the Senate and we hope that you continue to give that same type of hearty endorsement for the program.

Thank you.

Senator ABDNOR. Thank you for that fine presentation. I am sorry if I had to rush you along. I know Senator Bumpers has questions.

Mr. BLOUNT. Perfectly understandable.

Senator ABDNOR. Senator Bumpers?

Senator BUMPERS. Mr. Chairman, I won't belabor this. I have just asked my staff to get some figures on Arkansas. I am finding we already reduced 36,800, and 3,000 to 4,000 more will be cut from the WIC roles in Arkansas by May 15. I couldn't agree with you more, Mr. Blount, about the way this money is being parceled out. It is clearly in violation of the intent of Congress. We get kind of used to that. That may seem odd to you, but we get kind of used to it.

Mr. BLOUNT. I hope you don't get used to it, sir, if I may interject.

Senator BUMPERS. I am not used to it to the point of where I am not willing to try to do something about it.

Mr. BLOUNT. I appreciate that.

Senator BUMPERS. Arkansas is one State that suffered more than most because we had one of the highest infant mortality rates in the Nation. We now have made such reductions that the infant mortality rate is less than the national average, no small thanks to the WIC Program. This is one of the programs that in my opinion, despite budget constraints, must be maintained, at least at current levels.

Thank you for your testimony.

Senator ABDNOR. Thank you.

Mr. BLOUNT. Thank you very much.

[Mr. Blount's prepared statement follows:]

STATEMENT OF C. RICHARD BLOUNT

SUMMARY OF TESTIMONY

The National Association of WIC Directors:

1. Believes that those in Congress recommending a funding level authorization for fiscal year 1986 in the amount of $1.7 billion are justified.

2. Recommends that the fiscal year 1986 appropriation be no less than the $1.569 billion which the Congressional Budget Office has projected to maintain the current WIC service loads throughout fiscal year 1986.

3. Urges the Senate's assistance in assuring release of the full $1.5 billion appropriation for fiscal year 1985.

My name is C. Richard Blount. I am president of the National Association of WIC Directors. I have been state director of the Missouri WIC Program since 1976.

The National Association of WIC Directors represents the state agency directors of all the fifty states plus 31 Indian tribal organizations, Puerto Rico, the Virgin Islands, Guam and the District of Columbia. It was first conceived in 1979 as a national forum of program managers and other interested persons to act collectively on behalf of the WIC Program. It was officially organized by the adoption of its bylaws in November, 1983 and the election of officers at its first national conference in February, 1984. One of the primary functions of the Association is

> **"to act as a resource for governmental bodies and individual legislators regarding issues particular to the health and nutrition of women, infants and children and to act as an advocate for WIC clients."**

I consider it a real privilege to be here today to share with you the National Association of WIC Directors' concern regarding the appropriations for the Special Supplemental Food Program for Women, Infants and Children, nationally known as The WIC Program.

We recognize and heartedly applaud the past support which you have provided for the WIC Program. Generally, you have treated it with the respect which we believe it has earned. We earnestly believe that those in Congress who have recommended funding authorization for FY 1986 in the amount of $1.7 billion are justified in making such a recommendation. We would hope that such a level of funding could be appropriated. However, we, too, are sensitive to the tension between desirable program expansion and budget deficits, particularly at this time. We know reasonable compromises must be made among many commendable programs. Yet, there are bottom lines which we feel the cost of breaching would be greater than the cost saved.

It is our understanding that the Congressional Budget Office has projected that the minimum appropriation for FY 1986 must be $1.569 billion if the program is to maintain current service levels. We believe that the minimum FY 1986 appropriation should be no less than the $1.569 billion projected by the CBO.

There are several reasons why we feel current service levels should be maintained as a minimum and why we believe that those who have recommended moderate expansion are justified.

First, the WIC Program is nationally recognized as a program that has achieved its purpose more successfully than most any other program. The outcome of pregnancies has been signficantly improved by WIC participation during the prenatal period. Many studies, though they may be individually non-conclusive collectively provide a preponderence of positive data. The Missouri evaluation study cited by the GAO review as one of the most qualitative and credible WIC evaluations documented that:

> **"For both nonwhite and white participants, the low birthweight rates were less than one-half of the rates for comparable non-WIC mothers."**

This is a particularly significant finding because infant mortality is still the 13th leading cause of death in our country, and a low birthweight infant is 20 times more likely to die than a normal one. A study published in the January, 1985 issue of PEDIATRICS, the journal of the American Academy of Pediatrics, suggests:

> **"that participation in the WIC Program will help limit the development of iron depletion or iron deficiency anemia in young children."**

Secondly, not only does the WIC Program contribute significantly to such humanitarian outcomes, it is cost-effective. There are various studies documenting the program's cost-effectiveness. Some with a ratio as high as 3:1. A secondary study in Missouri, to be published in a leading national journal this summer, was made evaluating the program's cost-effectiveness using Medicaid payments and billings incurred within 30 days of birth. WIC participation was found to be associated with a significant reduction in Medicaid newborn costs. Our findings indicate that the cost-benefit based on actual medical costs incurred within 30 days of birth is 1.42:1. That is for every dollar spent to provide the program for the more than 6000 participants involved in the study, $1.42 was saved in medical costs during the first 30 days of the newborn's life. Such a favorable computation does not consider the much greater savings derived through the reduced cost of remedial or chronic care resulting from the prevention of catastrophic health problems. It can reasonably be argued that such positive program benefits contribute to significant savings in future medical costs having a positive effect on reducing future deficits.

Third, the WIC Program has proven to be an effective inducement for those in need to receive better health care. WIC has definitely caused an increase in the number of persons receiving maternal and child health services. Prenatal patients are entering health clinics much earlier, and more often, than they did before WIC. There is a significant increase in the percent of mothers receiving adequate prenatal care.

Not only has WIC successfully achieved its purpose, the need for the program today is as great as the day it was founded. The program, due primarily to limited funding, has never been able to serve all of the potential need. The National Advisory Council on Maternal, Infant and Fetal Nutrition established by Congress, on which I was privileged to serve three years, recommended in its 1980 biennial report to Congress and reaffirmed in its 1982 report

> **"that Congress increase the funding level for the WIC and CSF Programs to allow the programs to serve at least 50 percent of the Nation's eligible population by fiscal year 1985."**

The Council's 1984 report restated the same goal while extending the target date to fiscal year 1987. Today, due to limited funding, the program is still able to serve only about 35-40% of the potential need. Furthermore, since 1979, the number of children below age 6 who live in poverty has grown 51 percent. The number of persons eligible for and in need of WIC has grown rapidly and dramatically. Correlated with the increase in poverty is a new awareness that nationally the infant mortality rate, which has been steadily declining through the past decade, is now stabilizing with some areas documenting a new upward trend. We believe that failure to maintain the current WIC service levels would be a costly step backwards. Thus, we recommend that the FY 1986 appropriation be no less than the $1.569 billion which the CBO has projected to maintain the current WIC service loads. Our concern is that even CBO's projection, based on earlier food cost estimates, could be too low. The program costs have been critically effected within the last few months by a major price increase in infant formula assessed by the formula companies, the second such increase in a year!

Though my primary purpose here today has been to share the Association's concerns about the appropriation for FY 86, I believe I would be negligent of my responsibility if I did not take a brief closing moment to share with you again the National Association of WIC Directors' grave concern about the manner in which USDA is, and has been allocating, the Congressional appropriation for this current fiscal year. As you know, the Department of Agriculture has declined to release the full amount of the FY 1985 funding Congress appropriated for this important program. As a result, we will be forced to remove tens of thousands of poor pregnant women, infants, and children from the program, unless Congress acts to remedy this situation immediately. As of this date, the states have not been given a definitive total FY 1985 grant enabling them to clearly and accurately project their FY 1985 expenditures. Without assurance that the full $1.5 billion appropriated by Congress will be allocated, caseload cuts in many areas will have to be made. With each passing month, the situation grows more acute. By this summer when WIC allocations will be reduced further under USDA's plans, over 200,000 participants will have to be removed from the program.

These problems could be averted if the $1.5 billion appropriated by Congress last fall is released and the program is operated at the funding level that Congress envisioned. It now appears that this will not happen without legislative action directing that these funds be made available. We urge your assistance in assuring release of the full $1.5 billion appropriation so that needy women, infants, and children at nutrition risk do not have WIC prescription food supplements cut-off.

In closing, I want to again express the Association's great appreciation for your past support of this truly worthy program. I recall that in the Senate, last year's $1.5 billion appropriation was approved by a 83-4 vote. We hope that such support for this valuable program is again forthcoming -- both to remedy this year's funding problem averting program reductions before they start and to provide adequate funding to maintain current service levels throughout the 1986 fiscal year.

I would be happy to respond to any questions. Thank you.

NATIONAL VOLUNTEER FIRE COUNCIL

STATEMENT OF JIM MONIHAN, JR., PRESIDENT, NATIONAL VOLUNTEER FIRE COUNCIL

Senator ABDNOR. Our next witness is Jim Monihan, president of the National Volunteer Fire Council.

We jumped from the WIC Program to the fire department.

Mr. MONIHAN. That is rather funny, since in my professional life, I am assistant administrator of a hospital which has a host of WIC programs.

Senator ABDNOR. Is that right?

Mr. Monihan. I think they kind of go together.

I am Jim Monihan, chairman of the National Volunteer Fire Council. I appreciate the chance to speak to you, and I apologize to your staff for not having my testimony in earlier, but I will try to be brief.

First, I am very happy to be here so that I can thank you and your colleagues in the Senate for having repeatedly reinstated funding for the Rural Community Fire Protection Program. In fact, I'm not sure that any administration has included funding for this program in its original budget proposals. Unfortunately, this has contributed to the fact that the dollars have dwindled to $3.5 million through the process of compromise as the program is repeatedly reinstated.

The moneys which come to us do a great deal of work in the community. It goes to the community with very little loss in administrative overhead. The U.S. Forest Service passes this money to us virtually on a dollar-to-dollar basis, and we thank them very much for their hard work on our behalf. I would think you would agree that this program is itself something of a model in government.

This fund is used to purchase equipment for personnel, radio equipment, rakes, hoses, and a multitude of other tools for controlling, not only structural fires in the community, but also, grass, brush, and woodland fires. In other areas they are used for training and planning, as well as refurbishing surplus trucks we use for firefighting apparatus.

Unique to the uses on a statewide basis is the purchase of Army trucks in the State of Texas. These trucks are totally stripped and rebuilt in the State's prison system and made available to fire departments to purchase. If a department cannot afford the $3,000 cost of the truck, the vehicle is placed with the department on a permanent loan basis. I must note that without this program, those companies would not have access to equipment, period—not just this equipment, but equipment.

In addition to the good the program does in the community to protect lives and structural property, I want to emphasize that while technically it is a grant program, it has a second role of being reimbursed for services rendered. These are the only moneys provided directly by the Federal Government to the fire departments which protect Federal lands. While funding is available only to communities of less than 20,000 in population, the program touches virtually all of our 27,000 departments across the country, since those which don't qualify by their population end up fighting the fires on a mutual-aid basis with those who do.

You must understand that the fires that I am talking about are among the most difficult to combat. They require a great deal of manpower and are very exhausting. Many are in some of the most isolated and difficult to access areas in the country, and our people have to cover them virtually foot by foot by foot.

These are not the spectacular fires that you read about in the newspaper or see on the eleven o'clock news on television, but are hundreds of small fires that occur every day across the country.

Yes, the Rural Community Fire Protection Program continues not only to help our communities to protect themselves from fire, as it was conceived when Congress enacted it, but it goes further to help protect the Government's own land. Under different circumstances, I would be urging you to return the program's funding to its original $15 million or even to raise that amount. However, understanding the current budget dilemma, I now urge you to support legislation of the $3.5 million in the 1986 budget for continuation of the program. At the same time, I solicit the Senate's continued support for this excellent program and, should conditions change and you see fit, the return of the program to its original $15 million funding level.

With your help, we will continue to make strides in protecting our communities and the Government's lands at the same time from unwanted fire. While you help us to obtain the equipment we need, we will continue to provide the manpower in this never-ending battle.

I thank you, and if you have any questions, I would be glad to try to answer them.

Senator ABDNOR. I just want to say, I don't have any questions, Mr. Monihan. I am well aware of the fine things you have done with the appropriation and the great work the volunteer fire people, men and women, of this country do. This is one of those programs that is slated to be dropped. That means nothing at this time. The debate on the budget will commence tomorrow or next week.

I guess the number is similar with other programs. Some tough decisions will be made on them. We are happy to see you, and we are happy to have the testimony. In the Budget Committee, the fight will be continued. I know the purpose of the program is excellent. Thank you very much.

Mr. MONIHAN. We appreciate it. Thank you very much.

[Mr. Monihan's prepared statement follows:]

STATEMENT OF E. JAMES MONIHAN

I AM JAMES MONIHAN, CHAIRMAN OF THE NATIONAL VOLUNTEER FIRE COUNCIL. I APPRECIATE THE OPPORTUNITY TO SPEAK WITH YOU TODAY AND APOLOGIZE FOR NOT HAVING SUBMITTED A WRITTEN STATEMENT IN ADVANCE, BUT WILL TRY TO BE BRIEF IN MY REMARKS.

FIRST, LET ME THANK YOU AND YOUR COLLEGUES FOR YOUR OUTSTANDING SUPPORT OVER THE YEARS. THE NATION'S 1½ MILLION VOLUNTEERS APPRECIATE THE FACT THAT THE UNITED STATES SENATE HAS REPEATEDLY PUT FUNDS FOR THE RURAL COMMUNITY FIRE PROTECTION PROGRAM INTO THE ANNUAL BUDGET. IN FACT, I AM NOT SURE THAT ANY ADMINISTRATION HAS INCLUDED THIS FUNDING IN ITS BUDGET PROPOSAL AND, UNFORTUNATELY, THIS HAS CONTRIBUTED TO THE FACT THAT THE DOLLARS AVAILABLE HAVE DWINDLED TO 3.5 MILLION DOLLARS THROUGH THIS PROCESS OF COMPROMISE; WHILE THE PROGRAM IS REPEATEDLY REINSTATED.

THE MONEY WHICH COMES FROM THIS PROGRAM DOES A GREAT DEAL OF WORK IN OUR COMMUNITIES AND FLOWS TO THE COMMUNITY WITH VERY LITTLE LOST IN ADMINISTRATIVE OVERHEAD. IN FACT, THE UNITED STATES FOREST SERVICE PASSES THIS MONEY TO US VIRTUALLY ON A DOLLAR OR DOLLAR BASIS AND WE THINK YOU WILL AGREE THAT IN ITSELF MAKES IT SOMETHING OF A MODEL PROGRAM IN GOVERNMENT.

THESE FUNDS ARE USED TO PURCHASE EQUIPMENT FOR PERSONNEL, RADIOS, RAKES, HOSE AND THE MULTITUDE OF OTHER TOOLS FOR CONTROLLING, NOT ONLY STRUCTURAL FIRES IN THE COMMUNITY, BUT ALSO, GRASS, BRUSH AND WOODLAND FIRES. IN OTHER AREAS THEY ARE USED FOR TRAINING AND PLANNING.

UNIQUE TO THESE USES ON A STATEWIDE BASIS IS THE PURCHASE OF ARMY TRUCKS IN THE STATE OF TEXAS. THESE TRUCKS ARE TOTALLY STRIPPED AND REBUILT IN THE STATE'S PRISON AND MADE AVAILABLE FOR FIRE DEPARTMENTS TO PURCHASE. IF A DEPARTMENT CANNOT AFFORD THE THREE THOUSAND DOLLARS, COST OF THE TRUCK, IT IS PLACED WITH THE DEPARTMENT ON A PERMANENT LOAN BASIS. I MUST NOTE THAT WERE IT NOT FOR THIS PROGRAM, THAT DEPARTMENT WOULD VERY LIKELY NOT HAVE ACCESS TO A PIECE OF FIREFIGHTING APPARATUS.

IN ADDITION TO THE GOOD THAT THE PROGRAM DOES IN OUR COMMUNITIES TO PROTECT LIVES AND STRUCTURAL PROPERTY, I WANT TO EMPHASIZE THAT, WHILE TO YOU IT IS TECHNICALLY A GRANT PROGRAM, IT HAS A SECOND ROLE, THAT BEING ONE OF REIMBURSEMENT FOR SERVICES RENDERED. SINCE THIS IS THE ONLY MONIES PROVIDED BY THE FEDERAL GOVERNMENT TO THE FIRE DEPARTMENTS WHICH PROTECT FEDERAL WILD LANDS. WHILE FUNDING IS AVAILABLE ONLY TO COMMUNITIES OF LESS THAN 20,000 POPULATION, THE PROGRAM TOUCHES ALMOST ALL OF OUR 27,000 DEPARTMENTS, SINCE THOSE THAT DO NOT QUALIFY BY THEIR POPULATION, USUALLY WIND UP FIGHTING THE FIRES ON A MUTUAL AID BASIS WITH THE DEPARTMENTS WHICH DO QUALIFY.

YOU MUST UNDERSTAND THAT THE FIRES IN THESE LANDS ARE AMONG THE MOST DIFFICULT WHICH WE COMBATE. THEY REQUIRE A GREAT DEAL OF TIME AND MANPOWER AND ARE VERY EXHAUSTING. MANY ARE IN SOME OF THE MOST ISOLATED AND DIFFICULT TO ACCESS AREAS OF THE COUNTRY WITH OUR PEOPLE REQUIRED TO COVER THE AREAS ON FOOT TO COMPLETE EXTINGUISHMENT, OFTEN LITERALLY FOOT BY FOOT. NOTE THAT THESE ARE NOT JUST THE SPECTACULAR FIRES THAT YOU SEE ON TELEVISION AND READ ABOUT IN THE MEDIA BUT ARE HUNDREDS OF SMALLER ONES THAT OCCUR EVERYDAY ACROSS THIS COUNTRY.

YES, THE RURAL COMMUNITY FIRE PROTECTION PROGRAM CONTINUES TO HELP OUR COMMUNITIES TO PROTECT THEMSELVES FROM FIRE AS IT WAS CONCEIVED TO DO WHEN CONGRESS INACTED IT BUT GOES FURTHER TO HELP PROTECT THE GOVERNMENT'S OWN LANDS. UNDER DIFFERENT CIRCUMSTANCES, I WOULD BE URGING YOU TO RETURN THE PROGRAM'S FUNDING TO ITS ORIGINAL FIFTEEN MILLION DOLLAR LEVEL OR EVEN TO RAISE THAT AMOUNT; HOWEVER, UNDERSTANDING THE CURRENT BUDGET DILEMMA, I NOW URGE YOU TO SUPPORT RESTORATION OF THE 3.5 MILLION DOLLARS TO THE FISCAL YEAR 1986 BUDGET FOR CONTINUATION OF THE RURAL COMMUNITY FIRE PROTECTION PROGRAM. AT THE SAME TIME I SOLICIT YOUR CONTINUED SUPPORT FOR THIS EXCELLENT PROGRAM AND, SHOULD CONDITIONS CHANGE, AND YOU SEE FIT, THE RETURN OF THIS PROGRAM TO ITS ORIGINAL FIFTEEN MILLION FUNDING LEVEL OR HIGHER.

WITH YOUR HELP WE WILL CONTINUE TO MAKE STRIDES IN PROTECTING OUR COMMUNITIES AND THE GOVERNMENT'S LANDS FROM UNWANTED FIRE FOR, WHILE YOU HELP US TO OBTAIN THE EQUIPMENT WE NEED, WE WILL CONTINUE TO PROVIDE THE MANPOWER IN THIS NEVER ENDING BATTLE.

THANK YOU FOR THE OPPORTUNITY TO BE HERE AND I WILL BE GLAD TO ANSWER ANY QUESTIONS I CAN

National Rural Housing Coalition

STATEMENTS OF:

ROBERT RAPOZA, LEGISLATIVE DIRECTOR, NATIONAL RURAL HOUSING COALITION

HAROLD O. WILSON, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL

Senator ABDNOR. Our next witness, from the National Rural Housing Development Council, is Robert Rapoza, who is accompanied by Harold Wilson, the Housing Assistance Council executive director. We welcome you two gentlemen to the committee. I am sorry we have to move along so rapidly. All of these issues are important, and we wish we had the time to tackle them. We will do the best we can.

Mr. RAPOZA. Thank you very much, Mr. Chairman.

I have a prepared statement that I would like to submit for the record.

Senator ABDNOR. It will be put in the record in full.

[The statements of Mr. Rapoza and Mr. Wilson for the record follow their oral testimony.]

Mr. RAPOZA. I will try to quickly summarize my remarks. Let me just say at the outset that the one good thing about the budget deal between the White House and the Senate leadership is that at this time next year you might not have to hear from so many people, because you won't have any programs to worry about, particularly for this subcommittee.

We have appeared before this committee several times in the past, Mr. Chairman, to urge you to continue and strengthen rural housing and community facilities programs. We appreciate the responsiveness that this subcommittee has shown to our concern and the concerns that you provide decent housing and drinking water to rural areas.

Today we find ourselves in a somewhat different position, for while we would like to recommend a funding level of $4.7 billion for the rural housing programs and about $1 billion for rural community facilities, that does not appear to be a very likely number to be reached.

It appears to us at this point that it is a virtual certainty that if the Senate does approve the leadership compromise of the budget, we will have an end to a 35-year effort to provide rural areas with what they need with regard to housing and community facilities.

We believe that there are several reasons to continue the Farmers Home programs. There are 2.2 million rural households that live in bad housing. We have over 500 rural counties with no savings and loan institutions. We have had past cuts in the Farmers Home programs of close to 30 percent. The proposal as we understand it is to transfer responsibility for rural housing to HUD. The fact is that HUD does not have the delivery system that the Farmers Home has and does not have the financing to provide the new construction needed to increase the supply of standard housing.

We would urge the Senate to continue the Farmers Home housing programs. We appreciate the fact that you have joined over 35 other Senators in your "Dear Colleague" letter to support Farmers Home programs and we stand ready to work with you and other members of this subcommittee to continue the Farmers Home Housing Program.

Thank you.

Senator ABDNOR. Thank you, Mr. Rapoza.

Mr. Wilson, did you have a statement?

Mr. WILSON. We do have a statement, Mr. Chairman. We have presented it for the record. We would appreciate it if our statement could be included in the record.

Senator ABDNOR. Fine.

Mr. WILSON. Like Mr. Rapoza, I would like to summarize my statement for you, if I could.

First of all, I would like to express our thanks to this committee for the funding levels that you have provided in the past for the Farmers Home Administration housing programs and the support this committee has shown those very beneficial programs by your funding. I hope that the committee will respond, once again this year, and provide adequate funding levels for the programs because, as you are well aware, we are faced not just this year with a decrease in funding, but we are faced with the complete elimination of the Farmers Home Administration programs.

I would like to suggest to you, Mr. Chairman, that there are three very serious effects that the present budget considerations will have on the housing programs for forward-looking communities. The first is that we believe that the budget, if it is passed, and if these programs are eliminated, will also mean the elimination of the Farmers Home Administration as well as a rural delivery mechanism as we experience it now.

It seems to us that these programs originated over 35 years ago to respond to unique problems and conditions in rural communities, will also, if eliminated, result in the elimination of the 1,900 county offices that are out there, at least many of them; the district offices, 270 of them; and the 46 State offices.

We feel that it would be very difficult to justify that kind of a structure if a major portion of the agency's programs are eliminated. The Farmers Home delivery network has evolved gradually, as you are well aware, and is not something that will be replaced immediately if it is eliminated.

Cuts can be restored at a later date. We feel that this delivery network will not be replaced in the near future if it is allowed to be eliminated this year.

We feel, further, that there are compelling reasons to continue the Farmers Home Administration programs, because the programs, basically, have worked in rural communities. For instance, Farmers Home Administration-financed housing costs less. The average cost of a new house right now, I believe, is a little over $89,000. The average cost of a Farmers Home Administration single-family house right now is still running at around $37,000 or a little bit more. Those are substantial savings.

In addition to that, the Farmers Home Administration programs can serve the poor and, in many instances, do serve the poor. According to a GAO report, some section 502 borrowers had incomes of under $5,000 in 1984, and 85 percent of all section 502 borrowers had incomes of under $5,000.

The agency, through the 1983 amendments to the Housing Act, has the capacity to reach low with their program. The provisions include financing mobile homes, extending mortgage life to 30 years, and utilizing cost saving features such as duplexes and townhouses.

I think one of the unfortunate things that we have found is that the administration has been very slow in implementing these cost shaving provisions. However, if they are implemented, we feel that additional costs could be saved there.

The second point that I would like to make is that if the budget provisions are passed as they are being considered now, not only will it mean, we feel, the end of the Farmers Home delivery network, but it will mean the transfer of the rural programs to the Department of Housing and Urban Development, an agency that we feel is ill-equipped with either the programs or the structure to address the unique nature of the rural programs.

Our experience indicates that the peculiar needs and problems of rural communities simply cannot be addressed by urban designed and operated programs. As Bob mentioned already, there is credit availability lacking in the rural communities. As an example, on December 27, the Federal Home Loan Bank Board identified 523 U.S. counties that did not have a federally oriented savings and loan branch. The Justin Research Associates, in a report for the U.S. Department of Agriculture, cited evidence indicating substantial outflow of funds from Federal lending areas to serious liquidity problems among rural commercial banks. My own personal experience, when I was a housing developer in Massachusetts, I indicated that banks were simply unwilling to serve the income levels that we serve with the Farmers Home Administration programs.

Finally, Mr. Chairman, the last point: If the present budget provisions are passed and the programs are eliminated, it is simply that the poor in our country in rural communities will not be served. There remains a tremendous housing need for rural people. More than 2.1 million occupied rural housing units are still substandard by the Senate's definition. A 1981 HUD structural quality survey noted that 3.4 million occupied non-metro units were physically inadequate. More than 1.3 million rural tenants with incomes of less than $10,000 pay more than 35 percent of that income for rent.

Mr. Chairman, this does not include the special groups that Farmers Home has served in our country, such as migrant farmworkers. There are over 700,000 units of migrant farmworker housing that are still needed today.

In conclusion, Mr. Chairman, let me say that the fiscal year 1986 budget proposal leaves unanswered how the housing needs of the poor are going to be met. I would like to simply say that as you are well aware, shelter is not an expendable item. They cannot be cut back or eliminated when times are difficult. It is an essential element required for the support of human life, an element that has a direct bearing on the creative and productive potential of people.

We strongly resist a proposal that would eliminate a proven program for which there remains a need in our country and suggest strongly that this committee provide, if it is at all possible, funding levels at the 1985 levels.

Again, I want to thank you for your support of these programs and thank you for the opportunity to appear before this committee this afternoon.

Senator ABDNOR. Mr. Wilson and Mr. Rapoza, we thank you both. I wish we had more time. I have to make sure we finish our witness list. We have to move along. I assure you that we agree that this does present quite a problem. My State doesn't even have a HUD office.

Mr. WILSON. Exactly.

Senator ABDNOR. Thank you very much.

Mr. RAPOZA. Thank you, Mr. Chairman.

[The prepared statements of Mr. Rapoza and Mr. Wilson follow:]

STATEMENT OF ROBERT A. RAPOZA

Mr. Chairman, my name is Robert A. Rapoza and I am Legislative Director of the National Rural Housing Coalition (NRHC). NRHC is a national membership organization which lobbies for decent housing and community facilities for rural people. We have appeared before this Committee many times in the past and appreciate the opportunity to testify today.

Mr. Chairman, in the past we have urged this Committee to expand rural housing programs and community facilities administered by Farmers Home Administration (FmHA). This Committee has been responsive to our urgings and we are grateful for the interest you have shown.

Today, we find ourselves in a different position. While we would recommend a funding level of $4.7 billion for rural housing, which would, by the way, not restore the program to FY '80 levels, we are very much concerned about the future of federal rural development programs. It appears to us that recent budget accords virtually guarantee the end of most rural housing and development programs.

We continue to believe that there are compelling reasons for continuation of these important programs.

Rural Housing

The Administration's fiscal 1986 budget has proposed to eliminate all federal rural housing and development assistance provided through the Farmers Home Administration (FmHA). There is little justification for this proposal as there continues to be significant need for the credit and related assistance provided by FmHA.

Rural Housing Need

There are two dimensions to rural housing need in this country: one is lack of standard dwelling, the other is lack of income and affordable housing.

In the Farmers Home Administration (FmHA) service area there are over 2.2 million occupied housing units that are substandard (i.e., they lack adequate plumbing and/or are overcrowded). A recent HUD study, using a broader definition of substandardness (including other structural and physical defects) found that 4.5 million non-metropolitan units are "physically inadequate", and of these, 1.4 million are "severely inadequate". The incidence of physically inadequate housing in non-metropolitan areas is nearly twice that of metropolitan areas.

About half the households living in substandard housing in the Farmers Home Service area have annual incomes of less than $9,000. Some 2.6 million non-metropolitan households with incomes of less than $10,000 pay more than 35% of their income for shelter. Of these, about one million households pay over 60% of their annual income for housing.

Rural Housing Appropriation and Production Levels

Since fiscal 1979 there have been significant reductions in rural housing programs.

FmHA Rural Housing Programs
Fiscal Years 1980 - 1985
(dollars in millions)

	1980	1981	1982	1983	1984	1985	1986
# Units Assisted	154,642	131,011	114,126	93,040	86,780	92,070	4,500
$ App'n (Actual)	4,219	3,941	3,883	3,450	3,429	3,344	80
Current Services*	———	4,616	4,987	5,189	5,383	5,586	5,831
Net Decrease	———	-675	-1,101	-1,739	-2,134	-2,422	-5,751

*1980 Budget level, adjusted to account for inflation.

The number of housing units assisted by FmHA has declined 40 percent since 1980, while the dollar level of the federal effort dropped 42 percent. The cumulative cuts in rural housing programs over the 1981 to 1985 period total more than $8 billion.

These reductions have come primarily in programs for very low income including rental assistance, farm labor housing loans and grants and home repair loans and grants.

As a result of these reductions and increases in construction costs, production is down by about 40%. Levels for programs serving very low income have been reduced even further.

Reductions In Other Programs

The Housing and Community Development Act of 1974 established a set-aside of 20-25% of assisted housing program authority for non-metropolitan areas. According to the Housing Assistance Council over a six-year period (1975-1981) more than 350,000 rental housing units in non-metropolitan areas were assisted. This included an annual set-aside of 10,000 units of Section 8 rental assistance to be used in conjunction with the FmHA Section 515 rural rental housing financing.

Beginning in FY '81, there were major reductions in HUD contract authority. Starting in the FY '83 HUD appropriation legislation, this set-aside was eliminated. As a result, non-metropolitan participation in HUD assisted housing has dropped and, in particular, use of Section 8 with Section 515 to house very low income families has been eliminated.

Availability Of Credit In Rural Areas

There is a lack of credit and financial institutions in rural areas. Rural areas have about 30% of the nation's population but only 17% of the nation's savings.

Over 500 rural counties, with average populations of about 10,000 have no federally chartered S&Ls. The recent downturn in the farm economy has further decreased the availability of credit. The number of rural banks classified as FDIC troubled banks has more than doubled, to over 200. Over 4,000 banks, many in rural areas, have more than 25% of their loans to farmers, thereby threatening their ability to make other loans. According to Federal Reserve banks, rural banks have only 15% of the nation's bank assets.

Non-metro per capita savings is far below that of urban areas. Overall non-metropolitan per capita savings is only 64% of urban. When restricted to savings and loan institutions, the figure drops to less than 50%.

Metro and Non-Metro Per Capita Savings
Overall

	Total $	Per Capita
Metro	$1.47 trillion	$8,300
Non-Metro	$303.6 billion	$5,317
	S&L Only	
Metro	$382.7 billion	$2,245
Non-Metro	$68.9 billion	$1,206

Impact On Rural Economy

Because of the lack of credit in rural areas, FmHA direct mortgage lending is critical to rural economies and job creation. (It is estimated that every FmHA financed unit creates 1.3 person years of employment.)

Rural areas have not enjoyed the uniform recovery from the recession. Several have high rates of unemployment. Many depend on FmHA as a major source of capital for job creation. Termination of the rural housing program will result in further joblessness in rural America.

Official and Real Unemployment for
Selected States (November 1984)

State	Official Unemployment	Real Unemployment
Mississippi	11.0	19.3
North Carolina	7.0	12.6
West Virginia	15.6	28.1
Alabama	11.0	19.8
Arkansas	8.6	15.5
Kentucky	8.9	16.0
California	7.1	12.8
Louisiana	9.7	17.5

Real unemployment includes Official BLS figures for unemployed, discouraged workers and all those working part-time for economic reasons.

SOURCE: Full Employment Action Council

FmHA 502, 515 Allocation by Selected States

State	FmHA 502	515	Total FmHA
Mississippi	230	104.5	334.5
North Carolina	72.4	42.8	115.2
West Virginia	24.5	16.4	40.9
Alabama	36.7	30.4	67.1
Arkansas	38.6	18.5	57.1
Kentucky	54.8	39.4	94.2
California	87.7	52.2	139.9
Louisiana	63.4	834.6	98

($ in millions)

SOURCE: Housing Assistance Council

Households Assisted

FmHA assistance has gone exclusively to low income households. In 1984 the annual income of tenants in rural rental housing averaged about $7,700; about 3/4's of the tenants had incomes of less than $6,000. Homeowners under the Section 502 programs had median incomes in 1984 of $11,649. By law, all households receiving assistance must be low income, 80% of median, and or very low income, 50% of median. In FY '85 about 90,000 low and very low income households will receive assistance under the FmHA programs. Since the inception of the program in 1964, over 1 million households have received assistance.

FY '86 Budget Proposal

The Administration's FY '86 budget proposal would bring an end to a successful 20 year effort to provide rural people with decent housing.

Despite the fact that FmHA programs have already been reduced by close to $1 billion and the number of those assisted has dropped by about 40%, the Administration is seeking to reduce and eliminate the rural housing program.

Despite the fact that rural areas do not have credit to replace the financing provided by FmHA, the Administration is proposing to eliminate housing and community development programs.

Despite the fact that 2.0 million rural households live in substandard housing and the incidence of bad housing in non-metropolitan areas is nearly twice that of metro areas, the Administration plans to end a program of new construction and rehabilitation and replace it with a voucher program which depends on a stock of adequate housing to be successful.

Rural Community Facilities

The Administration proposes to reduce funding for Farmers Home Administration Water/Sewer Loans and Grants from a level of $457 million in FY '85 to $75 million in FY '86. According to the USDA budget summary, rural communities will have to rely on the Department of Agriculture and Urban Development (HUD) and the Environmental Protection Agency (EPA) for financing of rural water and waste disposal projects.

Rural Water Need

According to a Congressionally-mandated study, half the households in rural America are not served by a community drinking water supply. This study found that almost two-thirds of rural households drink water that does not meet Safe Drinking Water standards. Over 25% of rural households use water that does not even meet the most basic standard for bacteriological quality.

Rural Water-Waste Disposal Funding

Since fiscal 1979 there have been significant reductions in rural water-waste disposal reductions in rural programs.

FmHA Water/Waste Loans & Grants
Fiscal Year 1980 - 1985
($ in millions)

	1980	1981	1982	1983	1984	1985	1986
$ Appn (Actual)	999	961	508	900	360	461	75
Current Services		1093	1181	1229	1275	1323	1381
Net Decrease		132	673	332	938	900	1306

In 1980 dollars, funding for water/waste loans and grants is down by almost two-thirds. The cumulative reduction (FY '80 - '86) in this program is almost $3 billion.

Reductions In Other Programs

The Administration's budget proposes that small communities go to HUD or EPA for project funding. A formula change in HUD's Community Development Block Grant (CDBG) is proposed to increase the allocation to non-metro areas for a variety of projects which may include water-waste disposal funding. The net effect of HUD FmHA budget recommendation will be a net reduction of at least $175 million. EPA's waste/water construction program is to be limited to completely on-going -- mostly urban-projects and is itself scheduled to be terminated soon, and will therefore be of little use for rural areas.

Summary

In the face of increasing groundwater contamination problems, the Administration all but proposes to eliminate the major program designed to provide rural people with clean drinking water and adequate waste disposal. Other federal agencies have neither the resources or the institutional mandate to provide financing for rural community facility projects.

STATEMENT OF HAROLD O. WILSON

Mr. Chairman and members of the Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies, I am Harold O. Wilson, Executive Director of the Housing Assistance Council. The Housing Assistance Council (HAC) is a national nonprofit housing organization which seeks to assist in the provision of housing for low-income families by providing technical assistance and seed money loan funds to rural development organizations. For 14 years, HAC has examined rural housing need and monitored the federal government's efforts to meet that need.

I am here today to express my strongest concern for the future of the low-income families throughout rural America who need decent, safe, and sanitary housing, those individuals who were assured of protection by the "safety net." I believe, as a result of various budget proposals, we are in critical danger of losing the very mechanism that has worked so well over the past fifty years and which has produced over two (2) million units of decent housing, the Farmers Home Administration(FmHA).

Mr. Chairman, each year we are besieged with cries of budgetary constraint, making necessary a reduction of the rural housing programs of the Farmers Home Administration (FmHA). Each year we are told that the most needy, the poorest, will be protected by the "safety net"; and each year the programs are cut.

We are now presented with the most onerous budget proposal of all, the complete elimination of the new housing programs of the FmHA. The proposed budget for FY 1986, and the pending Senate budget bill, both presuppose the elimination of the FmHA housing programs and the resultant virtual abandonment of the housing effort in our nation's rural areas. We firmly believe that if such proposals are adopted, the ultimate victims will be the poor and ill-housed citizens of rural America.

If there is one point that I am able to convey before this Committee, let it be this. The FmHA rural housing programs are a vital resource for rural America. The assistance provided by the agency is irreplaceable. Any actions, be they in the Authorizing, Appropriations, or Budget Committees, should only be taken after very careful analysis of the benefits this nation continues to reap from these programs. We are not here today to advocate any sweeping increases in funds or dramatic new programs. We are here to request that this Subcommittee, when acting on the FY 1986 Agriculture Appropriation Bill, provide the Fy 1985 level of funds to permit the continuation of these essential programs.

The following points summarize our arguments in support of the continued existence of the FmHA rural housing programs:

i) Rural America continues to house a disproportionate share of our nation's poor. The 1980 Census identified 3.5 million poverty-level households in communities eligible for FmHA service. Rural poverty is getting worse; in 1983, the nonmetropolitan poverty rate was 18.3 percent, up sharply from 17.8 percent in 1982.

ii) Over 2.2 million units of rural housing in the FmHA service area are substandard.

iii) The need for comprehensive FmHA services continues unabated. In addition to the housing need, pollution of existing rural water systems has reached alarming proportions, and small farmers, as a class, are in desperate straits.

iv) The existing housing stock in rural areas is insufficient. Rural need cannot be met solely by local preservation efforts or by some modest and future voucher assistance program, because there is neither enough housing suitable for rehabilitation nor enough rental stock.

v) FmHA-financed housing is "bargain-priced". In 1984, existing units financed by FmHA cost 54.2 percent of the national median and new units financed by FmHA cost only 39 percent of the national average.

vi) The balanced FmHA homeownership/rental resources programs constitute a common sense approach toward meeting the housing need. For example, it costs less to subsidize those low-income families who can afford FmHA homeownership than to provide them with rental subsidies. On the other hand, the FmHA rental program permits the rental option for the poor communities which often have no decent rental housing stock.

vii) FmHA has a strong performance record.

viii) There is no viable decent housing alternative for the rural poor. A private housing credit delivery system for low-income families does not exist in rural America. With its 1,937 county, 270 district, and 46 state offices, FmHA has in place a delivery network well-suited to the peculiar problems associated with a dispersed population. No other agency possesses this type of delivery system.

The need for continued rural housing assistance is clear; and the need for continued FmHA housing assistance is obvious from a review of the Agency's achievements.

Over the past fifteen (15) years, this nation has witnessed dramatic progress in improving the quality of life for families in rural communities. While by no means eliminating poverty, substandard housing, or unemployment, FmHA assistance has provided many low-income people with an opportunity to achieve a better way of life. Over one million units of substandard housing in rural areas were replaced during the 1970s.

From 1970 to 1980, FmHA made over 1.2 million single family housing loans to rural families. Full implementation of the interest subsidy program during this period allowed service to low-income families unable to afford high mortgage rates. For the first time in their lives, these families had a chance at the American dream.

During the same period, FmHA made over 11,000 Section 515 loans, which produced 186,250 units of rental housing. In addition, 11,245 units of housing for migrant and seasonal farmworkers were produced. Rural low income families were further helped by the rental assistance program, which provided financial assistance to reduce the rental payments of qualified tenants.

FmHA and other federal resources were not adequate, however, to eliminate overcrowded, deficient housing occupied by low-income households, or affordability problems in rural areas.

In 1981, three-fifths of nonmetro very low-income households lived in housing defined by HUD as "having problems" - overcrowded, structurally deficient, and/or with high rent burden. The number and proportion of very low-income households with such housing problems increased since 1975, from 55.3 percent and 3.8 million households to 59.7 percent and 4.5 million households.

According to the Census, rural areas in 1980 contained 1.7 million occupied units which lacked plumbing or were overcrowded; i.e., which are deemed substandard by conventional measures. Within FmHA service areas, there are still 2.2 million units which are overcrowded or lack complete plumbing. According to more detailed data provided by the Annual Housing Survey, nearly a million rural substandard units were occupied by low-income households (with annual incomes of less than $9,000).

By HUD's criteria for structural quality - the most valid measures now in use - in 1981 there were 3.4 million occupied nonmetro units which were physically inadequate. (HUD has not published equivalent data for rural areas.) They constituted 13 percent of the nonmetro occupied housing. Of these, 1.4 million were severely inadequate.

Worst case households are those which are both poor and in inadequate housing. There were 1.9 million very low-income nonmetro households in inadequate housing as defined by HUD. One million were in severely deficient units. Twenty-two percent of the very low-income owners and 29% of the very low-income renters in nonmetro areas were in inadequate housing.

In addition, the Census reports 1.2 million rural households live in mobile homes manufactured before 1975; i.e., before a federal standard for mobile home safety and construction quality was implemented. More than half of the occupants of pre-standard mobile homes are low-income households.

These stark facts illustrate the continued need for new housing and housing rehabilitation.

TABLE I: Occupied Deficient Units in 1981

	Metro		Nonmetro	
	(Millions)	(% Total)	(Millions)	(% Total)
Total Occupied	56.7	100.0%	26.5	100.0%
Physically Inadequate	4.3	7.5%	3.4	13.0%
Severely Inadequate	1.5	2.7%	1.4	5.5%
Owners				
Occupied	34.8	100.0%	19.6	100.0%
Physically Inadequate	1.5	4.2%	2.0	10.1%
Severely Inadequate	.4	1.2%	.8	4.0%
Renters				
Occupied	22.0	100.0%	6.9	100.0%
Physically Inadequate	2.8	12.7%	1.5	21.2%
Severely Inadequate	1.1	5.1%	.7	9.6%

Inadequate Units Occupied by Very Low-Income Households

	Metro		Nonmetro	
	(Millions)	(% Total)	(Millions)	(% Total)
Total Occupied	14.3	100.0%	7.5	100.0%
Physically Inadequate	2.0	14.2%	1.9	25.0%
Severely Inadequate	.8	5.8%	1.0	13.8%
Owners	5.6	100.0%	4.4	100.0%
Physically Inadequate	.5	17.2%	1.0	22.0%
Severely Inadequate	.2	3.2%	.6	12.6%
Renters	8.8	100.0%	3.0	100.0%
Physically Inadequate	1.5	17.2%	.9	28.9%
Severely Inadequate	.7	7.5%	.5	15.5%

Source: Department of Housing and Urban Development, Office of Policy Development and Research, "Attaining the Housing Goal?", by Iredia Irby, July, 1984.

The composite figure for overcrowded as well as deficient units occupied by very low-income nonmetro households is 2.1 million units. Thus, by accepted standards for housing quality, there is a need for approximately 2 million new or upgraded units to house rural low-income households. Because nonmetro poverty has increased since these figures were reported (1980-81), it is likely that the current figure would be higher.

In 1981, nearly $15,000 was needed by a nonmetro family of four to meet annual living costs included in the "lower budget" established by the Bureau of Labor Statistics. In 1984, an estimated $17,000 was needed for nonmetro renter-occupied households, and $20,000 for owner-occupied households. (See appendices for details.) The lower budget assumes that less than a fourth of household income is spent on shelter.

Unfortunately, for nonmetro households of all incomes, gross rent as a percentage of income increased from 19% in 1970 to 25% in 1980; i.e., rents increased far faster than did income. (USDA) Mobile home rent consumed a larger share of rural incomes - 26%. The mobile home rent burden was greatest for minorities and poverty-level households: 30% for rural black households, over 50% for poverty-level households. (1980 Census)

The 1981 Annual Housing Survey reports that 2.6 million nonmetro households with incomes of less than $10,000 spent more than 35% on shelter costs. Most of these households earned less than $7,000. Over a million spent more than 60% of their incomes on housing. Over half of these had household incomes of under $3,000, and thus had less than $1,200 remaining with which to cover food, clothing, and other household expenses for the year. In the FmHA service areas alone, 1,309,312 tenant families have incomes of $9,999 or less and pay more than 35% of income for rent. Of these families, 831,592 (63.5%) have incomes of less than $5,000.

These households had fewer than four members, on the average. However, even using the Bureau of Labor Statistics (BLS) nonmetro lower living budget for retired couples, they would not have enough left after meeting shelter costs to afford basic expenses.

During December 1984, FmHA multifamily housing staff estimated that 138,750, or 44.8%, of the tenant households in Section 515 financed housing experienced a rent overburden.

Thus, in addition to poverty households now receiving assistance, as many as 2.6 million nonmetro households need assistance to cover shelter costs.

Rural needs include those of special populations for which remedy is difficult, even when government actively seeks to fund housing assistance. Migrant farmworkers are a case in point. A 1980 survey by the Interamerica Research Associates, under contract to the Farmers Home Administration, found that 750,000 new or substantially rehabbed units for migrant farmworkers were needed.

The 1986 budget provides funding for 4,550 units of rental assistance both for renewal of expiring contracts and/or servicing purposes. Unfortunately there are 15,000 units due to expire in 1986 followed by 10,500, 11,500, 12,000 and 13,000 units in fiscal years 1987 - 1990 respectively.

Many low-income rural homeowners need assistance to improve their water and/or waste disposal facilities. According to a survey conducted by Cornell University for the U.S. Environmental Protection Agency, two thirds of rural households in 1982 had unacceptably contaminated water, with coliform bacteria the most common contaminant. The Census of Housing reports that in 1980 nearly 2 million rural households relied on dug (not drilled) wells and undefined sources of water.

Nearly 16 million relied on septic tanks or cesspools for sewage disposal. According to a recent Soil Conservation Service study, many of these were in areas deemed not suitable for septic fields, and thus contributed to water contamination. Undefined means of sewage disposal were used by 1.3 million rural households. One and a half million rural households had either no bathroom or only a "half bath."

Thus, the Census indicates at least two million rural households need upgraded water and waste disposal facilities. The EPA study indicates a far higher number, perhaps as many as 14 million households, need facilities to eliminate water pollution, particularly contamination by human waste.

The Administration's budget implies that rural housing needs will be financed by the private sector, but proposes that government assistance will be provided by the Department of Housing and Urban Development (HUD). There are serious, if not fatal, flaws in the proposal which would replace direct credit with a guaranteed lending system which has not previously worked in rural areas. A viable guaranteed housing program is dependent on credit institutions geared and able to function as mortgage lenders.

During 1984, there were more bank failures than in any year since 1938, and most of those failures were in rural areas. Traditionally conservative, rural banks have been increasingly constrained by farm loan delinquencies. According to a recent study by the Economic Research Service of USDA, banks in agricultural areas have been particularly vulnerable to failure and other financial setbacks in recent years. Banks with agricultural portfolios are a considerable rural credit resource; nearly 1,300 of the 8,000 nonmetro banks had over half of their loan funds in agriculture. The jeopardy in which these banks are placed encourages them to collect from delinquent borrowers, contributing to a level of farm and home sales, auctions, and foreclosures exceeding any since the Great Depression.

The availability of private credit means little to low income families, who require some form of subsidy to permit homeownership, and the HUD ownership programs which are to be continued in 1988 are not subsidized. Table IV illustrates the percentage of income required to carry a very modest mortgage, taxes and insurance.

TABLE II: Percentages of gross income required to carry principal, interest, taxes and insurance (PITI) for a modest home with a 30 year 10.5 percent mortgage.

Mortgage - $40,000
Annual Payment - 4,392
Taxes - 400
Insurance - 140
PITI - $4,932

INCOME	PERCENTAGE FOR PITI
$15,000	32.9%
13,500	36.5%
10,000	49.3%
8.500	58.0%
7,000	70.5%

The above data are not shelter costs. Utility and maintenance costs are not included.

We recently examined data developed by the National Association of Realtors on median priced existing housing sales and minimum qualifying income; additionally, we looked at average new home cost and income data developed by the National Association of Homebuilders. These data illustrate who homebuyers were since 1974. Below, the 1983 data are contrasted to that of the FmHA 502 program:

Median price existing housing - $70,300
Average price new housing - $89,800
Average price FmHA housing - $37,743

There is ample evidence to conclude that sufficient housing credit is lacking in rural areas, and where that credit is available it serves a higher-income clientele. The need for credit and assistance for low- and very low-income households has already been documented. Therefore, termination of FmHA housing programs will effectively eliminate any possibility of adequate housing for several million rural families.

The problems facing rural tenants and the budget solutions proposed to meet these problems yield additional cause for concern. Under the budget rural areas presumably will be the planned beneficiaries of half of HUD's 97,500 assisted units, available beginning in 1988. Even this concession to rural need must be examined carefully and questioned. Because HUD plans to use housing vouchers as its future assisted housing program several questions must be asked: Are there enough suitable rental units available? Who will finance the new and replacement rental units needed in rural areas? If financed, will vouchers make new units affordable to low-income people?

HAC has long supported the FmHA rural housing programs. Since the 1960s these programs have been shaped to meet the unique requirements of rural America. The information and data in this report and appendices indicate a continuing and unmet need for services for the rural poor. The Farmers Home Administration programs and delivery system are best equipped to deal with this need.

The budget proposal leaves unanswered how the housing needs of the poor will be met. Even if private credit were universally available in rural areas, low- and very low-income families could not afford to use it. State and local housing finance efforts utilize tax-exempt offerings to reach families with incomes lower than those of families who can afford private credit, but these local programs do not serve the poor or the near poor, unless supplemented with deep federal subsidies. The expectations, associated with current budget proposals, that everyone would assume a fair share of the discomfort yielded by the cuts, is disingenuous at best. The budget proposals terminate the FmHA rural housing and community development programs, and in so doing, exacerbate an already impossible situation for the rural poor.

Shelter is not an expendable item that can be cut back or eliminated when times are difficult. It is an essential element required for the support of human life, an element that also has a direct bearing on the creative and productive potential of people. A proposal which would eliminate programs of assistance that have proven successful for years in raising the quality of life for the rural poor, but which at the same time offers no realistic alternatives, is questionable on both moral and economic grounds. It reflects a policy that is shortsighted at best.

Rather than being eliminated or cut beyond useful capacity, the FmHA programs should be reformed to assure their efficiency and increase their ability to serve the poor. The economic and social problems of rural communities call for creative solutions, not the burial of programs created to address exactly the problems we face in rural America today.

We therefore urge the members of this Subcommittee to keep faith with the families of rural America. The budget proposals which would terminate the FmHA rural housing programs should be firmly rejected. We strongly endorse the appropriation recommendations of the National Rural Housing Coalition, that would ensure the preservation and continuation of the successful rural housing programs of the FmHA as we know them.

MAINE MUTUAL FIRE INSURANCE CO.

STATEMENT OF RANDY KEEP, VICE PRESIDENT

Senator ABDNOR. Our last witness is Randy Keep of the Maine Mutual Fire Insurance Co. Sorry to save you for last, Randy.

Mr. KEEP. Good afternoon.

Senator ABDNOR. It does not mean we are not just as interested.

Mr. KEEP. Mr. Chairman, as you have indicated, my name is Randy Keep. I am the vice president and the project manager for crop insurance at the Maine Mutual Fire Insurance Co. I, too, would like to apologize to your staff for not getting my material in sooner than today. It is a long way from northern Maine. The purpose of my testimony this afternoon is to request your support for the dual delivery system of crop insurance through FCIC.

With the passage of the Federal Crop Insurance Act of 1980, the Maine Mutual Fire Insurance Co. signed a master marketing contract with FCIC in 1981. As a private insurance company, we did not desire to write crop insurance through the Government reinsured system. We chose to market Federal paper through our farm agency system to provide full service to our area growers.

As a mutual farm insurer in Maine, New Hampshire, and Vermont, we have encouraged and trained our agents to sell and service crop insurance.

Our efforts to encourage our agents was slow to catch on and very costly to our company from a training and professional point of view. In 1982, our company handled less than 300 acres of insurance, with only a slight increase in 1983 to about 1,200 acres.

However, in 1984, we handled nearly 13,000 acres of crop insurance. In 1984, when only 18 percent of the Maine potato crop was insured, our company handled better than 68 percent of the total coverage. We had projected sales in 1985 to exceed 50,000 acres for all crops in the Northeast.

During this 3-year period, two of our employees have been assigned to the crop insurance program. With the added expense of training our agents and filling in where FCIC has cut their staff, we have continually lost money. As a master marketer, we have trained, and FCIC has certified, 63 professional insurance agents to sell and service crop insurance.

These licensed agents conduct business in New York, Connecticut, Massachusetts, Vermont, New Hampshire, and Maine. Four of these agents have been certified with FCIC since 1984.

With the introduction of such crops as apples, peas, as well as an overall acceptance of the crop insurance program, we feel confident that the Maine Mutual Fire Insurance Co. will handle in excess of 50,000 acres of crop insurance in 1985.

New sales of tobacco, corn, and other crops are coming in daily from Connecticut and Massachusetts. On March 1, 1985, we were notified of FCIC's intent to underwrite crop insurance through commercial companies rather than through its present direct insurance operation.

This decision would eliminate our company from handling crop insurance and place us in a position of losing our investment that was needed to build our crop book of business.

A new reinsurance agreement has not been approved by FCIC, and we are not willing to have some other reinsured commercial company come in and deal with our farm agents.

Maine raises about 90,000 acres of potatoes, and within 2 to 3 years, the Maine Mutual Fire Insurance Co. would deliver 75 percent of those acres to FCIC.

Because of these 67,000 acres, we had decided to expand beyond the Tri-State area of Maine, New Hampshire, and Vermont. In November 1984, we were given permission to write crop insurance in New York, Massachusetts, Connecticut, Rhode Island, and New Jersey. By 1987, our plans call for us to deliver over 150,000 acres to FCIC in the Northeast.

If the Master Marketing Program is eliminated on October 1, 1985, all of this will be impossible. It is my understanding that the master marketing delivery system, as of January 1, 1985, accounted for 44 percent of the total business insured with FCIC. As one of the 60 master marketers, we will be placed in the position of losing our investment in building this book of business.

Mr. Chairman, may I conclude by saying that FCIC does offer the American farmer a better program than the ASCS Disaster Aid Program, and as policies and coverages become more actuarially sound, along with full implementation of the APH Program, I believe crop insurance in the Northeast will prove to be a better program over the next 10 years.

As growers in the Northeast begin to realize the importance of crop insurance as one of their risk management tools, so also do we feel that a local company can best serve the needs of the area growers.

We do not oppose Government reinsured commercial companies; however, our experience with FCIC has shown a multiple delivery system was required to assure that all farmers, particularly those in high-risk areas of the country, can have crop insurance protection.

I would encourage you and your committee to reconsider the issue of master marketing as a delivery system of FCIC. I would like to thank you. I did not say at the outset, but I would hope, that the entire three pages of my prepared text will be entered into the record.

Senator ABDNOR. Mr. Keep, your entire statement will be made a part of the record.

Bear in mind the budget process hasn't really started yet other than in the Budget Committee. It will be coming to the floor. All the things they write in there are assumptions. Any one of them can be changed.

The Maine Mutual Fire Insurance Co. takes the place of the crop insurance? They can go your route as far as the Government's policy, is that right?

Mr. KEEP. We have elected to stay with the Federal paper. We are a property and casualty company. Twenty-five percent of our total volume is in the market. So we took on the Crop Insurance Program through the master marketing delivery system as to be of full service to our farm clients.

Senator ABDNOR. What percent of the farms in Maine are maintaining crop insurance?

Mr. KEEP. At the present point, I would say about 15 percent of the potato growers. As I indicated in my report, 18 percent of the 1984 crop was insured.

Senator ABDNOR. That is relatively high. In some States, it is less, although I think maybe more and more are coming to it, because farming is getting to be such a difficult business.

Mr. KEEP. I tend to find farmers are a "sit back and wait and see" group of people, and that is exactly what occurred in our area. As they began to realize the benefits from a risk management point of view, they have suddenly gotten on the bandwagon and are now considering crop insurance as just that, a risk management tool.

Senator ABDNOR. Each year it is getting to be more difficult to keep going economically with less and less. The risks are getting much greater in growing a crop and surviving.

Mr. KEEP. As the weather patterns change across the country, we are having to adjust to that and develop new seed that will grow in a shorter growing season.

Senator ABDNOR. I thank you for attending today. Again, I point out that we were discussing the agriculture budget yesterday. More than once, it was pointed out that these were assumptions, and that it is up to Congress as a whole. We thank you very much.

Mr. KEEP. Thank you for your time.

[Mr. Keep's prepared statement follows:]

STATEMENT OF RANDALL C. KEEP

With the passage of the Federal Crop Insurance Act of 1980, the Maine Mutual Fire Insurance Company signed a Master Marketing contract with FCIC in 1981. As a mutual farm insurer in Maine, New Hampshire, and Vermont, we have encouraged and trained our agents to sell and service crop insurance. Although our efforts to encourage our agents were slow to catch on and very costly to our company from a training and promotional point of view, we feel that 1985 will be the year in which our efforts will be rewarded. In 1982 our company handled less than 300 acres of insurance with only a slight increase in 1983 of about 1200 acres, however, in 1984 we handled nearly 13,000 acres of crop insurance. In 1984, when only 18% of the Maine Potato crop was insured, our company handled better than 68% of the total coverage. We have projected sales in 1985 to exceed 50,000 acres for all crops in the North East.

During this three year period of time, two of our employees have been assigned to the crop insurance program. With the added expense of training our agents and processing the paper work through Kansas City and Harrisburg Field Operations Office, we have continuously lost money. As a Master Marketer we have trained and certified 63 professional insurance agents to sell and service crop insurance. These licensed agents conduct business in New York, Connecticut, Massachusetts, Vermont, New Hampshire, and Maine. Forty of these agents were certified by FCIC in 1985.

With the introduction of such crops as Apples and Peas as well as an over all acceptance of the crop insurance program, we feel confident that Maine Mutual Fire Insurance Company will handle in excess of 50,000 acres of crop insruance in 1985. We have already written over 1,500 acres of apple coverage and our agents are currently talking to all four pea processors with over 10,000 acres of peas to be planted here in Aroostook County. We have conducted 12 grower meetings in which our agents invited their farm accounts, some 200 in number, to come and discuss the 1985 crop program. New sales of tobacco, corn, and other crops are coming daily from Connecticut and Massachusetts.

On March 11, 1985 we were notified of FCIC's intent to underwrite crop insurance through commercial companies rather than through its present direct insurance operation. This decision would eliminate our company from handling Crop Insurance and place us in a position of losing our investment needed to build our crop book of business.

A new Reinsurance Agreement has not been approved by FCIC and we are not willing to have some other Reinsured Commercial Company come in and deal with our farm agents.

Maine raises about 100,000 acres of potatoes and within 2 - 3 years Maine Mutual Fire Insurance Company would deliver 75% of those acres to FCIC. Because of these 75,000 acres, we have decided to expand beyond the Tri-State area of Maine, New Hampshire, and Vermont. In November, 1984 we were given permission to write crop insurance in New York, Massachusetts, Connecticut, Rhode Island, and New Jersey. By 1987 our plans call for us to deliver over 150,000 acres to FCIC here in the North East.

If the Master Marketing program is eliminated on October 1, 1985, all of this will be impossible. It is my understanding that the Master Marketing delivery system accounts for 44% of the total business insured with FCIC. As one of the sixty (60) Master Marketers we will be placed in the position of losing our investment in building this book of business.

When any new program is introduced to a new area, there are bound to be problems. In 1983, with just over $100,000 in written premiums here in Aroostook County, FCIC paid out over $350,000 in losses. In 1984, with about $680,000 in written premiums, FCIC paid out over 3 million dollars in losses. In short, FCIC has paid out in losses four (4) times the premium income during the past two (2) years. With this type of loss history we will be unable to enter into a reinsurance contract unless we are given enough time to broaden our base of coverage throughout the North East.

We understand reinsured commercial companies have been allowed to select risks for reinsured purposes while dumping alleged poor business. If this is true, what will the Aroostook County farmer do about Crop Insurance as a Risk Management tool?

The local ASCS county office has been removed from the list of crop agents as these offices are being used to verify grower records in the new APH program. If the

Master Marketing program is cut, our growers will have only one alternative: Government Reinsured Commercial Companies.

If the Master Marketing delivery system is eliminated, the Maine Mutual Fire Insurance Company will have no alternative but to bow out of the crop insurance program and allow one of the mid-western reinsured companies to come in and try to handle our growers crop insurance needs. With the past two years experience of 400% loss ratios, it is obvious that no reinsured commercial company will want to make any long range committments to the potato farmer in Northern Maine.

It is also clear that no reinsured company will be able to provide adequate loss adjusters to provide service to the growing needs of our area farmers. Once again it appears ~~that the~~ Aroostook farmer has had the rug pulled out from under him.

FCIC does offer the American farmer a better program than the ASCS Disaster Aid Program and as policies and coverages become more actuarially sound along with full implementation of the APH program, I believe crop insruance in the North East will prove to be a better program over the next 10 years.

As growers in the North East begin to realize the importance of crop insurance as one of their risk management tools, so also do we feel that a local company can best serve the needs of the area growers.

We do not oppose government reinsured commercial companies, however, our experience over the years with FCIC has shown a multiple delivery system is required to assure that all farmers, particularly those in high risk areas of the country, can have crop insurance protection.

I would encourage you and members of your committee to reconsider the issue of Master Marketing as a delivery system of FCIC.

CONCLUSION OF HEARINGS

Senator ABDNOR. This concludes the subcommittee's fiscal year 1986 budget hearings for Agriculture, Rural Development, and Related Agencies. I know the information we have obtained will be of great assistance in helping us make the tough decisions that lie ahead. We appreciate the assistance of the Department and agencies and offices, and we thank everyone who has provided testimony to the subcommittee during this process.

The subcommittee will stand in recess and reconvene at the call of the Chair.

Thank you.

[Whereupon, at 3:04 p.m., Wednesday, April 17, the hearings were concluded and the subcommittee was recessed, to reconvene at the call of the Chair.]

SUBMITTED STATEMENTS AND LETTERS

[CLERK'S NOTE: The materials which follow were submitted in lieu of an appearance before the subcommittee. The subcommittee wishes to assure each of those who submitted these materials that the information will be considered to the same degree as testimony which was read or submitted at the hearings.]

STATEMENT OF SENATOR D'AMATO

MR. CHAIRMAN, I WANT TO TAKE THE OPPORTUNITY TO THANK YOU AND YOUR COLLEAGUES ON THE SENATE APPROPRIATIONS SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES FOR PERMITTING ME TO SUBMIT THIS TESTIMONY. I COMMEND YOU FOR HOLDING THIS HEARING AS THE SENATE BEGINS CONSIDERATION OF THE BUDGET FOR FISCAL YEAR 1986.

I WOULD LIKE TO BEGIN BY STATING THAT NEW YORK STATE, TO THE ASTONISHMENT OF MANY, IS ONE OF THE LEADING AGRICULTURAL STATES IN THE NATION. IN FACT, NEW YORK RANKS THIRD NATIONWIDE IN THE PRODUCTION OF MILK. NEW YORK DAIRYMEN PRODUCED MORE THAN 11.6 BILLION POUNDS OF MILK IN 1983 FOR A TOTAL SALES VALUE OF MORE THAN $1,600,000,000. AGRICULTURE IS THE LARGEST INDUSTRY IN NEW YORK, AND IS, DIRECTLY OR INDIRECTLY, RESPONSIBLE FOR ONE OUT OF EVERY FOUR JOBS IN THE STATE.

1985 IS AN IMPORTANT YEAR FOR AGRICULTURE. OVER THE NEXT FEW MONTHS CONGRESS WILL BE PREPARING THE BUDGET AND DRAFTING LEGISLATION THAT WILL HAVE AN IMPACT ON THE AGRICULTURE INDUSTRY FOR YEARS TO COME. IT IS IMPORTANT THAT, AS WE REDUCE THE FEDERAL DEFICIT, WE DO NOT SUBSTANTIALLY REDUCE OR ELIMINATE AGRICULTURAL PROGRAMS THAT ARE VITAL TO A LONG TERM FARM POLICY.

KEEPING IN MIND THAT AGRICULTURE IS, BY ITS VERY NATURE, SUBJECT TO MANY VOLATILE AND UNCERTAIN FACTORS, FOR

EXAMPLE THE WEATHER, FARM POLICIES MUST BE DEVELOPED THAT ARE MORE MARKET ORIENTED. HOWEVER, BECAUSE THESE INHERENT UNCERTAINTIES DO EXIST, THE GOVERNMENT MUST BEAR SOME RESPONSIBILITY TO SUPPORT THIS INDUSTRY.

THE ADMINISTRATION HAS PROPOSED A BILL, S.501, WHICH TAKES A HARD LINE APPROACH BY REDUCING OR ELIMINATING CERTAIN PROGRAMS DURING THE NEXT 5 YEARS. THIS PROPOSAL WOULD SET THE SUPPORT PRICE PAID TO DAIRY FARMERS AT $11.60, WITH THE AUTHORITY FOR THE SECRETARY TO REDUCE THE PRICE BY 50 CENTS ON APRIL 1, 1986, AND AGAIN ON JANUARY 1,1987. AFTER THIS DATE, A DIRECT PAYMENT PROGRAM WOULD BE ESTABLISHED.

IT IS MY BELIEF THAT A DRASTIC REDUCTION IN THE PRICE SUPPORT PROGRAM, WHICH HAS BEEN IN EXISTENCE FOR MORE THAN 30 YEARS, WOULD CAUSE IRREPARABLE HARM TO OUR DAIRY PRODUCERS. A FAR MORE SENSIBLE APPROACH WOULD BE TO PURSUE A POLICY THAT IS RELATED MORE TO THE MARKET AND LESS TO THE POLITICAL CLIMATE.

I BELIEVE THAT MOST DAIRYMEN WANT SUCH A POLICY. NO DAIRY FARMER WANTS TO RECEIVE A "FREE RIDE" FROM THE FEDERAL GOVERNMENT. WHAT HE WANTS IS A FAIR PRICE FOR HIS PRODUCT. TO TRAMPLE THE ENTIRE DAIRY SUPPORT CONCEPT, AS SOME PROPOSE, WOULD BE A TRAVESTY.

THE ADMINISTRATION ALSO PROPOSES A DRASTIC REDUCTION IN CHILD NUTRITION PROGRAMS. THE SCHOOL LUNCH PROGRAM

ASSISTS BOTH THE NEEDY CHILD AND THE FARMER BECAUSE IT PROVIDES BOTH CASH AND COMMODITY ASSISTANCE. IT ENSURES A CHILD A NOURISHING MEAL WHICH ENABLES HIM TO PERFORM BETTER IN THE CLASSROOM. AT THE SAME TIME, IT PROVIDES THE FARMER AN OUTLET TO SELL HIS PRODUCT.

THE SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, CHILDREN AND INFANTS (WIC) PROVIDES FOOD SUPPLEMENTS TO PREGNANT AND LACTATING WOMEN, INFANTS, AND CHILDREN. THIS PROGRAM IS ALSO BENEFICIAL TO BOTH RECIPIENT AND PRODUCER. FURTHER, STUDIES HAVE SHOWN THAT WIC PARTICIPATION IS ASSOCIATED WITH IMPROVED PREGNANCIES AND A REDUCTION IN INADEQUATE PRENATAL CARE.

THESE PROGRAMS ARE UNDER THE AX OF BUDGET DIRECTOR DAVID STOCKMAN. THE SMALL PERCENTAGE OF THE BUDGET THAT IS ALLOCATED FOR THESE PROGRAMS, IT SEEMS TO ME, IS MONEY WELL SPENT. A SMALL INVESTMENT REWARDS US WITH IMPROVED HEALTH, ACADEMICS, AND ECONOMY.

AGRICULTURE IS EXPERIENCING DIFFICULT TIMES. 1985 MUST BE THE YEAR THAT CONGRESS APPROVES VITAL PROGRAMS AND IMPLEMENTS LEGISLATION THAT WILL BENEFIT THE AGRICULTURE INDUSTRY IN THE YEARS TO COME.

MR. CHAIRMAN, I THANK YOU FOR PERMITTING ME TO SUBMIT TESTIMONY FOR THIS HEARING AND I COMMEND YOU FOR YOUR EFFORTS.

Statement of Senator Glenn

MR. CHAIRMAN, IT IS A PLEASURE TO TESTIFY BEFORE YOUR SUBCOMMITTEE ON THE 1986 FISCAL YEAR APPROPRIATIONS FOR THE DEPARTMENT OF AGRICULTURE. BEFORE BEGINNING MY PREPARED REMARKS, LET ME COMMEND YOU AND THE AGRICULTURE SUBCOMMITTEE FOR YOUR EXTENSIVE HEARINGS ON THE AGRICULTURE APPROPRIATION REQUEST. YOUR WORK IS INSTRUMENTAL IN MAINTAINING A STRONG FEDERAL Commitment TO AGRICULTURE.

MR. CHAIRMAN, THE 1980S HAVE NOT BEEN KIND TO U.S. AGRICULTURE. PRICES HAVE DECLINED, FORCING INCOMES LOWER. LAND VALUES HAVE DECLINED, FORCING THOUSANDS OF FARMERS OUT OF BUSINESS. UNFORTUNATELY, THIS SITUATION PROBABLY WILL NOT IMPROVE IN THE NEAR FUTURE. AS A RESULT WE MUST PROVIDE SHORT TERM AID TO ADDRESS OUR CURRENT PROBLEMS AS WELL AS DEVISE A LONG TERM STRATEGY WHICH WILL RETURN PROFIT TO AGRICULTURE.

THE HISTORY OF U.S. AGRICULTURE REVEALS THAT FARM PROSPERITY OCCURS WHEN DEMAND FOR COMMODITIES IS IN BALANCE WITH SUPPLY. UNFORTUNATELY, THERE HAVE BEEN ONLY TWO PEACETIME PERIODS SINCE 1900 WHEN SUPPLY AND DEMAND BALANCED, ALLOWING FARMERS TO GENERATE PROFITS YEAR AFTER YEAR. THE FIRST WAS THE SO-CALLED GOLDEN AGE OF U.S. AGRICULTURE, 1905-1914. THE SECOND PERIOD WAS IN THE 1970S, WHICH I BELIEVE HISTORY WILL RECORD AS THE SECOND GOLDEN AGE OF U.S. AGRICULTURE.

IN THE FIRST GOLDEN AGE, DOMESTIC DEMAND FOR FOOD WAS GROWING AT A RAPID RATE DUE TO BOTH THE INCREASING AFFLUENCE AND INCREASING NUMBER OF AMERICANS. IN THE SECOND GOLDEN AGE, EXPORTS OF AGRICULTURAL PRODUCTS INCREASED FAST ENOUGH NOT ONLY TO MATCH THE INCREASE IN YIELDS DUE TO NEW TECHNOLOGY BUT ALSO TO PUT BACK INTO PRODUCTION LAND WHICH HAD PREVIOUSLY BEEN IN LAND SET ASIDE PROGRAMS.

THE FACT THAT PROSPERITY IN THE 1970S WAS EXPORT DRIVEN HAS LEAD MANY FARMERS, FARM ORGANIZATIONS, AND POLICY MAKERS TO ARGUE THAT WE NEED TO FORMULATE A STRONG EXPORT SECTION IN THE 1985 FARM BILL. ALTHOUGH I SUPPORT SUCH AN EFFORT, THERE ARE SIGNS THE EXPORT MARKET MAY NOT PROVIDE THE DEMAND AMERICA'S FARMERS NEED. THIS POINT WAS RECENTLY DISCUSSED IN A WALL STREET JOURNAL ARTICLE, ENTITLED "SUDDEN WORSENING OF NATION'S $37 BILLION FARM EXPORT MARKET MAY POSTPONE RECOVERY IN THE TROUBLED AGRICULTURAL MARKET" (MARCH 25, 1985).

NEGATIVE FACTORS IN THE EXPORT MARKET INCLUDE: (1) THE CONTINUING DEBT CRISIS IN MANY THIRD WORLD COUNTRIES, (2) THE LIKELIHOOD OF SLOWER ECONOMIC GROWTH IN THE 1980S THAN IN THE 1970S, (3) THE INCREASED EMPHASIS GIVEN TO AGRICULTURAL DEVELOPMENT BY MANY LESS DEVELOPED COUNTRIES, AND (4) THE EMERGENCE OF OTHER COUNTRIES AS EXPORTERS OF FARM COMMODITIES. OMINOUSLY, THE RATIO OF U.S. YIELD OF SOYBEANS TO THAT OF THE REST OF THE WORLD HAS DECLINED FROM A 2-TO-1 RATIO IN THE MID-1960S TO A 1.5-TO-1 RATIO BY 1980. THE SAME DECLINE HAS OCCURRED, ALTHOUGH NOT AS DRAMATICALLY, FOR OTHER MAJOR FIELD CROPS, EXCEPT CORN.

JUST AS IMPORTANT AS THE RECENT DECLINE IN EXPORTS HAS BEEN THE ABSENCE OF GROWTH IN DOMESTIC PER CAPITA CONSUMPTION OF FOOD PRODUCTS DURING THE LAST TEN YEARS. EVEN MORE WORRISOME, HAS BEEN THE DECLINE IN PER CAPITA CONSUMPTION OF MEAT PRODUCTS SINCE 1970.

THESE CLOUDS OVER FUTURE GROWTH OF TRADITIONAL OUTLETS FOR U.S. FARM PRODUCTS SUGGESTS THAT A NEAR TERM RECOVERY IN AGRICULTURE IS NOT LIKELY. EVEN NOW, EXCESS CAPACITY IN U.S. CROP AGRICULTURE APPROACHES 6%. CONTINUATION OF CURRENT TRENDS MEANS THAT U.S. AGRICULTURAL PRODUCTION MUST SHRINK TO BALANCE DECLINES IN DEMAND. PROLIFERATION OF NEW TECHNOLOGIES, INCLUDING

THE ENORMOUS POTENTIAL OF BIOTECHNOLOGY, REINFORCE THIS GLOOMY OUTLOOK.

THIS SITUATION CHALLENGES US TO DEVISE A PROGRAM THAT IS FORWARD LOOKING AND BOLD -- A PROGRAM WHICH WILL BALANCE DEMAND WITH SUPPLY AND RETURN PROSPERITY TO AGRICULTURE. I BELIEVE THAT A PROGRAM DRAWING ON AMERICA'S UNPARALLELED AGRICULTURAL RESEARCH CREATIVITY CAN ACCOMPLISH THESE GOALS.

SPECIFICALLY, THE PROGRAM I AM PROPOSING WILL DEVELOP NEW NON-FOOD USES FOR FOOD PRODUCTS. TODAY, STARCH, MOSTLY FROM CORN, IS USED TO MAKE ALCOHOL. AN ADDITIONAL 127 MILLION BUSHELS OF CORN ARE USED IN MANUFACTURING PAPER PRODUCTS, BUILDING MATERIAL, TEXTILES, AND ADHESIVES. TWO TO FOUR BILLION POUNDS OF REFINED CELLULOSE IS USED TO PRODUCE SYNTHETIC PRODUCTS SUCH AS RAYON AND PLASTICS. AND, THREE TO FIVE BILLION POUNDS OF FATS AND OILS PRODUCED IN THE U.S. ARE USED IN NON-FOOD PRODUCTS.

THE POTENTIAL FOR INCREASED USE OF FOOD PRODUCTS IN NON-FOOD USES IS SUBSTANTIAL. MANY CHEMICALS CURRENTLY MADE FROM PETROLEUM CAN ALSO BE MADE FROM CARBOHYDRATES. FOR INSTANCE, BEFORE 1950 MOST ACETONE AND N-BUTANOL WERE OBTAINED FROM CARBOHYDRATES. HOWEVER, PETROLEUM WAS A CHEAPER FEEDSTOCK. WITH THE INCREASE IN OIL PRICES, CARBOHYDRATES ARE MORE COMPETITIVE, BUT RESEARCH IS NEEDED TO DEVELOP MORE EFFICIENT PROCESSES FOR TURNING CARBOHYDRATES INTO THESE AND OTHER OXYCHEMICALS.

EVEN MORE POTENTIAL LIES IN THE UTILIZATION OF THE UNIQUE PROPERTIES WHICH NATURAL POLYMERS OF STARCH AND CELLULOSE POSSESS: BIODEGRADABILITY, WATER SOLUBILITY, WATER RETENTION, CONTROLLED RELEASE OF NUTRIENTS AND PESTICIDES, ADHESION, AND SEMIPERMEABILITY. THE CHALLENGE IS TO DEVELOP NEW PROCESSES WHICH YIELD CHEMICALS AND OTHER PRODUCTS THAT ARE SLIGHTLY DIFFERENT FROM BUT MORE DESIRABLE THAN OIL-BASED PRODUCTS.

THERE IS ALSO THE POTENTIAL OFFERED BY GENETIC ENGINEERING, WHICH SOME SCIENTISTS DESCRIBE AS "MOLECULAR FARMING." THIS TYPE OF FARMING WOULD USE GENETIC ENGINEERING TO PROGRAM CROPS OR LIVESTOCK FOR THE PRODUCTION OF POTENTIALLY USEFUL CHEMICALS AND OTHER MOLECULAR SUBSTANCES. THE CHEMICALS AND SUBSTANCES WOULD THEN BE EXTRACTED FROM THE CROP OR LIVESTOCK PRODUCTS AS ONE STEP IN THE PROCESSING PACKAGE.

PRODUCTS DERIVED FROM FOOD COMMODITIES OFFER NOT ONLY THE POTENTIAL TO INCREASE DEMAND FOR FARM PRODUCTS BUT ALSO THE POTENTIAL TO REDUCE AMERICA'S DEPENDENCE ON IMPORTS FOR CERTAIN STRATEGIC MATERIALS, PARTICULARLY OIL. MOREOVER, NATURALLY DERIVED CHEMICALS PROVIDE ENVIRONMENTALLY SAFER SUBSTITUTES FOR PETROCHEMICALS.

WE CAN ACCOMPLISH THESE GOALS BY ESTABLISHING A RESEARCH PROGRAM TO APPLY BASIC KNOWLEDGE IN BIOLOGY, CHEMISTRY, AND PHYSICS TO DEVELOPING THE POTENTIAL FOR NON-FOOD PRODUCTS FROM FOOD COMMODITIES. THIS RESEARCH PROGRAM WOULD BE AIMED AT INTERMEDIATE TECHNOLOGY, THE BRIDGE BETWEEN BASIC RESEARCH AND PRODUCT DEVELOPMENT. IT IS THIS TYPE OF RESEARCH THAT THE U.S. DEPARTMENT OF AGRICULTURE AND THE LAND GRANT UNIVERSITIES HAVE EXCELLED AT IN DEVELOPING NEW PRODUCTION TECHNOLOGIES.

RESEARCH ON NEW NON-FOOD USES FOR FOOD PRODUCTS IS CURRENTLY BEING CONDUCTED AT THE AGRICULTURAL RESEARCH SERVICE'S REGIONAL LABS. UNFORTUNATELY, IT AMOUNTS TO ONLY $5 MILLION OUT OF A TOTAL ARS RESEARCH BUDGET OF $474 MILLION IN FISCAL YEAR 1984. SCATTERED RESEARCH ON NEW PRODUCT DEVELOPMENT IS ALSO BEING DONE IN THE LAND GRANT SYSTEM. HOWEVER, VIEWED WITHIN THE TOTAL AGRICULTURAL RESEARCH PICTURE, EXPENDITURES ON NEW NON-FOOD USES OF FOOD PRODUCTS PALES BESIDE THE MONEY BEING SPENT BY THE PUBLIC AND PRIVATE SECTOR ON PRODUCTION RESEARCH. THIS IMBALANCE IS ONE REASON THAT U.S. AGRICULTURE'S PRODUCTIVE CAPACITY HAS

OUTSTRIPPED THE DEMAND FOR ITS PRODUCTS. SUPPLY IS BEING CREATED WITHOUT THE MARKETS TO ABSORB IT.

TO RIGHT THIS IMBALANCE I URGE YOU TO RECOGNIZE THE POTENTIAL THAT EXISTS FOR NEW NON-FOOD PRODUCTS FROM FOOD PRODUCTS. AND, I WOULD NOTE THAT WITH A CONCERTED EFFORT SOME OF THIS POTENTIAL CAN BE REALIZED IN THE NOT TOO DISTANT FUTURE WITH A CONCERTED RESEARCH EFFORT. SPECIFICALLY, I PROPOSE THAT $6.55 MILLION BE INCLUDED IN THE FY86 FUNDING FOR RESEARCH INTO NON-FOOD USES FOR COMMODITIES USED AS FOOD OR INPUTS INTO THE PRODUCTION OF LIVESTOCK AND LIVESTOCK PRODUCTS

THE BULK OF THESE FUNDS WOULD BE DIRECTED TO THE AGRICULTURAL RESEARCH SERVICE AND THE COMPETITIVE GRANTS SECTION OF THE COOPERATIVE STATE RESEARCH SERVICE. A SPECIAL RESEARCH GRANT OF $150,000 WOULD ESTABLISH A CENTER AT THE OHIO STATE UNIVERSITY TO STUDY THE ECONOMICS OF DEVELOPING AND MARKETING NEW NON-FOOD USES FOR AGRICULTURAL PRODUCTS. THIS CENTER WOULD COMPLEMENT THE DEVELOPMENT OF NEW PRODUCTS BY ANALYZING MARKET IDENTIFICATION AND DEVELOPMENT STRATEGIES AS WELL AS CONDUCTING MARKET IMPACT STUDIES. AN OUTLINE OF MY PROPOSAL IS PRESENTED IN AN ATTACHED DOCUMENT.

THIS PROPOSAL DOES NOT OFFER SHORT TERM HELP TO FARMERS. IT IS A LONG RUN STRATEGY TO RETURN PROFIT TO AGRICULTURE AND TO CREATE THE BASE FOR A THIRD GOLDEN AGE OF AGRICULTURE. SUCH FORWARD LOOKING STRATEGIES ARE THE KEY TO RENEWING AMERICA'S AGRICULTURAL PROSPERITY AND RESTORING OUR FARMERS CONFIDENCE IN THE FUTURE. I LOOK FORWARD TO THAT FUTURE AND WORKING WITH YOU, MR. CHAIRMAN, TO SHAPE IT.

MY THANKS FOR THIS OPPORTUNITY TO TESTIFY.

APPENDIX A
APPROPRIATION REQUEST FOR NON-FOOD PRODUCT RESEARCH
FY86

(1) Competitive Grants, Cooperative State Research Service: $3,400,000.

(2) Agricultural Research Service: $3,000,000.

(3) Special Research Grant, Cooperative State Research Service: $150,000.

TOTAL OUTLAYS FY86: $6.55 million

LETTER FROM SENATOR INOUYE

The Honorable Thad Cochran
Chairman
Senate Subcommittee on Agriculture of
the Appropriations Committee
Washington, D.C. 20510

April 17, 1985

Dear Mr. Chairman:

Thank you for inviting me to submit my comments on the U.S. Department of Agriculture's budget request for fiscal year 1986. I appreciate the opportunity to discuss this important issue and ask that you include this letter as part of the Subcommittee's hearing record for April 16th and 17th.

I am deeply concerned about several of the proposed cuts in the USDA's budget. In some cases, needed funds for research and conservation are being reduced at a time when we should be strengthening our efforts in these areas. In other cases, important programs are being completely eliminated, and I would urge the Committee to reinstate funding as follows:

Agricultural Stabilization and Conservation Service:

Agricultural Conservation Program:

FY 1985 estimate:	$190,000,000
FY 1986 proposed:	$ 0
RESTORE TO:	$190,000,000

This action would restore needed funding for erosion planning and control by local authorities. I would also request such funds as the Committee deems appropriate for the Emergency Conservation Program, which supports emergency conservation measures necessitated by hurricanes, droughts, and other natural disasters.

Cooperative State Research Service:

Special Research Grants:

FY 1985 estimate:	$ 28,530,000
FY 1986 proposal:	$ 0
RESTORE TO at least	$ 28,530,000

The special research grants targeted for zero funding in FY 1986 include several projects which are vital to Hawaii. These include tropical/subtropical research ($3,250,000), EDB replacement research ($300,000), aquaculture research ($518,000), and alternate sugarland use research ($150,000).

Extension Service:

Food and Nutrition Program (EFNEP)

1985 estimate:	$60,140,520
1986 proposal:	$ 0
RESTORE TO:	$60,140,000

Pest Management

1985 estimate:	$ 7,531,000
1986 proposal:	$ - 0
RESTORE TO:	$ 7,531,000

Pesticide Impact Assessment

1985 estimate:	$ 1,716,000
1986 proposal:	$ 0
RESTORE TO:	$ 1,716,000

These section 3(d) programs contribute immeasurably to the well-being of Hawaiian farmers and those reached by the extension services administered by the University of Hawaii, and deserve to be restored.

Farmers Home Administration:

Restore bill language (section 624) prohibiting the FmHA from moving its Hawaii State Office from Hilo to Honolulu.

Agricultural Cooperative Service:

1985 estimate:	$ 4,639,000
1986 proposal:	$ 3,565,000
RESTORE TO:	$ 4,639,000

and include bill language specifying that $139,000 shall be available for the field office in Hilo, Hawaii.

Animal and Plant Health Inspection Service:

Animal Welfare Program:

1985 estimate:	$ 4,865,000
1986 proposal:	$ 0
RESTORE TO:	$ 4,865,000

Soil Conservation Service:

Conservation operations are being cut nationwide by a third; in Hawaii, the current 47 staff years would be reduced to 33. I would recommend restoration of full manpower and funding for the SCS, especially in the following programs:

Watershed Planning

1985 estimate:	$ 8,750,000
1986 proposal:	$ 6,895,000
RESTORE TO:	$ 8,750,000

Some of the watersheds under planning that may be affected by the proposed cut are the Lahaina and Waimea projects. The Congress has reaffirmed its commitment to watershed planning and development over the past four years, and I would expect the Committee to renew its commitment in FY 1986.

Watershed and Flood Prevention Operations

FY 1985 estimate:	$173,935,000
FY 1986 proposal:	$ 62,631,000
RESTORE TO:	$173,935,000

The proposed restoration would allow work to continue on such important watersheds as Keopu, Waimanalo, Kahuluu, Honolua, and Wailuku. It would also maintain SCS watershed and flood prevention staff years in Hawaii at 13 instead of reducing them to 4.

Rather than cut the USDA's budget in vital areas such as research, I would urge the Committee to fund two new initiatives in fruit fly control and aquaculture. APHIS is currently working on a draft environmental impact statement on ways to eliminate the tri-fly complex from Hawaii. Most of the suggestions contained in the draft EIS rely heavily on the aerial application of pesticides. Since effective lure and bait controls have been developed for the Oriental fruit fly, I would ask the USDA to devote some of its resources to researching biological and genetic controls for the Mediterranean fruit fly--an endeavor that would benefit not only Hawaii, but also California, Florida, Texas, and other mainland agricultural states.

In the field of aquaculture, federal funding is still needed to provide direction and seed money for our nation's budding industry. In Hawaii, the State Government, private industry, and the University of Hawaii have established a joint enterprise to coordinate local aquaculture research and development. I would ask that the Committee assist this important effort by providing planning funds for the continued development of aquaculture in Hawaii.

I look forward to working with you and other members of the Committee on agricultural appropriations for fiscal year 1986. Thank you for giving my views your time and consideration.

Aloha,

DANIEL K. INOUYE
United States Senator

DKI:bhm

STATEMENT OF SENATOR LEAHY

Specific Recommendations

Research and Education

The USDA budget assumes that research and education programs will receive diminished support. The budget for these programs is reduced by $123 million under the assumption that funding for specified programs will be discontinued.

Agricultural research, extension, and teaching programs are an investment in the nation's future. I urge the subcommittee to consider the recommendations of the nation's agricultural colleges - for expansion, not contraction, of funding for these programs. In this particular era of farm crisis, we must seek to provide continuity in the research and funding so critical to understanding the forces at work in this sector.

-- Extension Grants. Maintain the level of appropriations for section 3(d) special grants at the level established for Fiscal Year 1985.

-- Promotion of Farm and Agricultural Products. During the past few years, export sales of agricultural products have diminished. Some experts believe that more intensive use of farm-produced commodities will offer a better hope, in the long-term, for a high volume of production. I recommend that $5 million of funds be allocated to the special grants program for this purpose.

The following areas, in particular, are critical for Vermont:

-- Maple Research. Last year, the Committee on Appropriations recommended an appropriation of $250,000 for maple research at the University of Vermont. I urge the subcommittee to include the same recommendation for funding in Fiscal Year 1986. The maple decline has an affect on two major industries in Vermont -- the lumber industry, and the maple syrup industry.

This past year, Vermont produced 34 million feet of saw maple lumber with a value in excess of 9 million dollars. This value represented about 40 percent (34 out of 87 million feet) of the hardwood lumber produced in Vermont. In addition, 33,000 cords of maple wood are used as pulpwood for high quality paper production and an indeterminate amount was used as firewood. About 400,000 cords of fuelwood was cut this past year.

While we do not know what percentage was maple, maple is the major source of fuelwood.

The production reports of maple syrup indicates that its sales value is the following:

Vermont	$12,500,000
New York, Maine, New Hampshire and Massachusetts	$10,000,000 to $15,000,000

Additionally, the North American Syrup Council reports that significant syrup is produced in Rhode Island, Connecticut, Pennsylvania, Maryland, West Virginia, Virginia, Kentucky, Ohio, Wisconsin, Minnesota, and Michigan.

-- Farm Financial Management. Increase funding for the special project of Farm Financial Management to enable expanded use of competitively-funded projects to assist farms in financial difficulty. (In Fiscal Year 1985, the Vermont Extension Service was awarded $37,300 under this program to support its project.) The economic stress confronting farmers is no less today than a year ago and this funding should be increased to $6 million.

-- Agricultural Education. Establish funding for post-graduate agricultural education fellowships at the Fiscal Year 1984 level of $5 million.

-- Listeriosis Research. Listeria bacteria is a stream of bacteria found in milk. The bacteria can produce a potentially fatal infection if not eliminated by the pasteurization process. Last year, a strain of this bacteria survived the pasteurization process of Vermont milk, causing an outbreak of an infection caused by these bacteria. The University of Vermont has conducted some preliminary research concerning this outbreak, but requires additional funding of $250,000 to continue the research. I urge the subcommittee to allocate this funding level.

Soil and Water Conservation

The President's budget request indicates significant budget reductions in soil and water conservation programs in the next fiscal year and further reductions in later years.

I urge the subcommittee to reject this request for cuts and fund these vital programs at responsible levels next year.

Small Community and Rural Development. Vermont Farmers are concerned about ill-considered agricultural policy proposals that would precipitate a credit.crisis in our state. Vermonters support credit proposal to help fellow farmers in the midwest and thereby contain, limit and hopefully eliminate, the immediate credit crisis. Vermonters do not want the crisis to spread.

I call the committee's attention to the fact that, after years of neglect, the 1980 Rural Development Policy Act created the Office of Rural Development Policy, to function at USDA as the only office focusing upon integrated rural development. This small office has struggled to facilitate rural development by simply sharing the successful experiences in one rural community with those in another. In spite of a decidedly private sector focus, this program has suffered budget cuts. I propose restoring full funding ($2,363,000) to the Office of Rural Development Policy.

Vermont's Center for Rural Studies has worked under contract with USDA's Office of Rural Development Policy to develop a study design identifying the barriers to the delivery of federal programs in rural areas of the United States. This working arrangement was established by language passed by the Senate Agricultural Appropriations Committee in June of 1983 and mandated the completion of the barriers study, now estimated to cost a maximum of $400,000. I would encourage the committee to approve allocation of the funds necessary to complete this pathfinding effort addressing the inequities and inefficiencies in the use of federal funds in depressed rural areas of the country.

The President's proposal budget would terminate most farm credit, rural development, and rural housing programs and limit the availability of FmHA assistance to existing borrowers. This proposal would severely disadvantage small and beginning farmers. The Senate Budget Committee did not adopt this proposal and I believe that agricultural credit programs should be funded at the current levels.

Marketing and Inspection Programs User Fees

The Administration's budget request for Fiscal Year 1986 assumes that, beginning next fiscal year, the cost of meat inspection will be paid by processors through "user fees." Implementation of the "user fees" is scheduled to be phased in over a three-year period. "User fees" are expected to fund one-third of processing inspection program costs in Fiscal Year 1986.

The costs of the nation's meat and poultry inspection is a national public health service and not an exclusive benefit for processors or producers. Maintaining publicly funded inspection is essential for maintaining public confidence in the nation's meat supply.

STATEMENT OF SENATOR MELCHER

Mr. Chairman, I certainly appreciate this opportunity to testify before the Subcommittee on Agriculture and Rural Development, and outline a few of the areas of special concern I have on the President's proposed budget and the tremendous impact it will have on rural America as we know it.

As you know, we are facing a very critical time for the agriculture industry and farm communities. During the past several years we have seen farmers and ranchers faced with low prices, rising surpluses, and high interest resulting in an unprecedented drop in farm income.

This year we will act on the quadrennial Farm Bill which will set the pace and the tempo of agriculture for the remainder of this decade. In addition, the actions of this subcommittee will have a profound effect on the future of rural America. Along with agriculture producers and the users of nutrition programs, rural housing, rural water programs, rural electrification and telephone, the quality of life affecting over 100 million of Americans will be affected by your decisions.

Areas of specific concern to me include those which the Administration has proposed to cut, alter or completely do away with altogether. To ignore the progress we have made and reject the goals we have set for ourselves is to deny our national heritage. It ignores the basic commitment we made to rural America up to 50 years ago.

RURAL ELECTRIFICATION

Rural electric cooperatives are consumer-owned and operated utilities which provide electricity to over 25 million consumers in 46 states. The electrification of rural areas revolutionized country life by alleviating the drudgery that consumed many farmers' waking hours, by increasing agriculture productivity and contributing to the most productive agriculture base in the world, by improving rural life, and by helping to reduce this nation's dependence on foreign oil.

This May, Mr. Chairman, we will celebrate the 50th anniversary of the creation of the rural electric cooperative program. This anniversary signifies one of the most successful partnerships formed between this government and its citizens. Since its creation in 1935 by President Franklin Roosevelt, the Rural Electrification Administration has assisted these locally owned and operated utilities to provide nothing less than reliable, affordable electric service to all of rural America.

The unique situation facing rural electric cooperatives has not changed dramatically since the first government loans were made in 1936. America's rural electric systems average fewer than 5 consumers and collect annual revenues of less than $4,500 per mile of line. Contrast this to investor-owned utilities, who average 36.6 customers and collect $54,100 per mile of line, and publicly-owned utilities, which average 60 customers and collect $67,700 annually per mile of line, and it is not difficult to see the government's role in this undertaking.

The Administration proposes to reduce the Rural Electrification Administration's loan funding to $500 million, a decrease of $300 million, and the guaranteed loans to $300 million, a reduction of $900 million. The REA cannot hold the line in terms of service at these levels. I urge the subcommittee to provide funding levels of no less than $650 million for the insured loan program, and $1 billion for the guaranteed loan program. This funding level would be a reduction from current levels, and it is the minimum amount needed to continue this work.

RURAL HOUSING

The Rural Housing Program, administered by the Farmers Home Administration, has been a 30 year effort by the federal government to provide decent and affordable housing to disadvantaged people living in rural areas. This program operates a variety of assistance methods to provide home ownership loans, moderate rental facilities for the elderly, and rural rental assistance.

The National Rural Housing Coalition estimates that 7 million residents of rural America live in inadequate or substandard housing. Local communities simply do not have the resources to replace the FmHA's role in this area of rural development. The Administration's proposal to transfer these functions to the Department of Housing and Urban Development brings along with it neither the additional funding to provide for the added responsibility, nor the manpower and expertise which is currently in place and operating in thousands of FmHA county offices.

I urge the subcommittee to reject this groundless proposal and maintain the rural housing and rental assistance programs within the FmHA and fund them at adequate levels.

RURAL COMMUNITY DEVELOPMENT

Other community programs operated under the FmHA include the Water and Waste Disposal Program and the Community Facilities Program. Each of these programs provide invaluable services to small communities that simply do not have the economic base to absorb the additional costs should they be discontinued.

Many rural water and waste disposal systems were constructed in the 1930s and 40s. These systems are quickly becoming outdated and the health standards they are able to maintain fall seriously below minimum levels. Boil Orders are not uncommon in rural America. The Water and Waste Disposal Program makes available intermediate and low interest loans and grant funds to non profit associations for the purpose of upgrading existing water systems.

The Community Facilities Program can be used to perform a variety of essential services. The loans are made to public bodies or nonprofit organizations for the purpose of providing fire protection, community halls, libraries, hospitals, nursing homes, medical clinics, and schools.

I believe that both of these programs have provided essential services to rural America that can hardly be considered luxuries. These areas will not be addressed if not through the Farmers Home Administration. I hope that the subcommittee will see the wisdom in continued adequate funding for the 1986 fiscal year.

AGRICULTURE CREDIT

The main function of the Farmers Home Administration lies in its service to farmers and ranchers. The Administration's plan would eliminate most farmer programs within the FmHA and alter the basic nature of the one program to be continued.

Historically, the Operating Loan Program has supplied necessary production funds to farmers and ranchers lacking adequate sources of credit elsewhere. The FmHA has accomplished this primarily through insured direct loans to the operator. Over the past several years a guaranteed operating loan program has grown in popularity. Last year the Senate increased the funding level for guaranteed loans from $50 million to $650 million. Several lending institutions in Montana have welcomed this increased funding and are actively seeking to utilize it, but I would caution this subcommittee against over reliance on the guaranteed loan program at this time.

Current budget proposals would combine the Farm Ownership and Operating Loan programs, and phase out the direct loan program altogether over the next 5 years. I do not believe that there is adequate information available to justify such a fundamental shift in the FmHA's policies.

There is another factor which we must take into consideration while making these funding decisions. Within the last 5 months three Production Credit Associations in Montana have closed their doors. Over 2,000 operators lost their line of credit at about the same time. These operators are now expected to settle up with the PCA. Their B stock -- 10 percent of the loan must purchase B stock -- has not been repaid. Some of these operators will find adequate financing at neighboring PCAs or from commercial lenders. However, some must look to the FmHA if they are going to have any hopes of staying in business. Insured direct loans from the FmHA will be the mainstay of some of these farm or ranch borrowers.

The economic outlook in agriculture surely does not suggest a resurgence of agriculture credit next year. To change horses in the middle of this stream would put unnecessary pressures on agriculture lenders and could very well cause a loss of confidence in the Federal Government's commitment to agriculture. I believe it would be a much more prudent step to provide funding for direct operating loans at no less than current levels and increase the guaranteed loan program from the $650 million approved by the Senate last year to $1.5 billion.

The FmHA's Farm Ownership Program has proved to be a very popular and very important program in terms of assisting young people in getting started in agriculture and helping established producers over hard economic times.

In last year's Agriculture Programs Adjustment Act, Congress placed a requirement on the FmHA that at least 20 percent of these loans (and 20 percent of the operating loans) be made to Limited Resource borrowers. That is; to borrowers who, because of a lack of experience, equipment, capital, land, or due to underdeveloped farms or farming practices, need a lower interest rate to have a reasonable chance of success. These are obstacles faced most often by young, beginning or minority farmers who have not been able to develop farms which are capable of earning them an adequate living.

Currently, it is not uncommon for applicants of this program to wait 3 to 5 years before their their applications can even be considered for funding. This waiting list would seem to me to be the most convincing testimonials to the necessity of the programs existence. I would hope that this subcommittee would reject the Administration's proposal to combine the Farm Ownership program with the Operating Loan program, and would instead increase its funding somewhat so that this tremendous backlog in applications can be cleared out.

The President would also have us discontinue the Emergency Disaster Program, which provides assistance to producers who have experienced severe production losses due to natural or manmade disasters. In part, this is because the U.S. Department of Agriculture believes that participation in the Federal Crop Insurance Program will increase to its optimum level and premiums can be maintained at reasonable rates -- all this will be accomplished despite a Federal Crop Insurance Corporation proposal to eliminate all subsidies to the Federal Crop Insurance System. I certainly hope that the Department is correct in these predictions, but I feel it is putting the cart before the horse to eliminate the disaster program entirely at this time.

The disaster assistance program is a good one. It provides loans to producers based solely on proven losses sustained as a direct result of the designated disaster. It is not a give-away program. This assistance merely tides producers over a disaster year giving them an opportunity to continue their operations into the next crop year. We should not be pulling the rug out from under farmers and ranchers by completely eliminating disaster assistance loans.

SOIL AND WATER CONSERVATION

Another critical area for agriculture in this country and in this world are the soil and water conservation programs administered by the Department of Agriculture. The greatest asset this country has is its soil and water base. We, as a nation, must focus greater attention on protecting this base.

There is a real unmet need in soil and water conservation work in this country. It has been on a declining basis for the past 10 years in terms of real dollars. We are doing one-half of the work in soil conservation that we were doing 10 years ago.

The Administration's budget request for conservation functions within the Department of Agriculture come very close to gutting the entire program. The Administration proposes to zero-out all of the cost-sharing programs within the Agriculture Stabilization and Conservation Service, a total of 211.3 million. In real terms, the Administration also plans to reduce the Soil Conservation Service. On Oct 1, 1986, there will be 9,156 fewer SCS staff if the Congress does not act. The River Basin, Snow Surveys, Watershed, RC&D, Great Plains Conservation Programs will all have been phased out. In short, Mr. Chairman, the Federal Government will be taking a giant step backwards to the 1920's, when soil conservation was not considered as an important governmental responsibility. We will be condemning ourselves to another episode of the dirty thirties. I hope that we are wise enough not to take this step, and instead maintain soil and water conservation funding at more than of the 1985 levels.

CHILD NUTRITION

The United States has a long standing commitment to nutrition programs for all children. This is an investment in the future population of our country as well-nourished children learn better and healthier -- now and throughout their lives.

Federal funding for child nutrition programs were cut by almost one-third in 1981. If the 1986 Administration proposals were added to that, these essential programs could be cut by almost half in five years. This would be intolerable and a desertion of our national commitment. Child nutrition programs must be kept at least at current levels.

All of the budget proposals currently being discussed wold change the underlying philosophy of the School Lunch and Child Care Food Programs for day care homes from that of nutrition programs for all children to welfare programs only for poor children.

First, I disagree with the proposed policy change and second, I do not think this change would result in targeting aid only to the poor. Instead, I think that pulling out basic support subsidies would seriously undermine these programs so that many would not be able to continue. This would deprive many poor and marginal income children of their nutritional needs. Many other programs would have to raise their prices resulting in children dropping out, many of which would be marginal income children.

SCHOOL LUNCH PROGRAM

Eliminating school lunch federal subsidies for meals served to children from families with incomes above 185 percent of the poverty line may save several hundred million dollars on paper, but the costs to schools and children are far more extensive. Payments for non-needy children participating in the school lunch programs help underwrite the stability of the whole program and build economies of scale. The loss of this funding from school operating budgets is anticipated to force 3 to 5 million children and 5,000 to 6,000 schools from the National School Lunch Program.

School officials in my state of Montana believe that, if this proposal passes Congress, elementary schools there will make every effort to keep programs operating but will undoubtedly be forced to raise prices by at least 15 cents. After the 1981 budget cuts, about 20 percent of the children dropped out after prices were raised. Most of these children whose families are eligible for free lunches instead opted for the reduced price lunches and, because of family pride, only 25 percent of those who are eligible for free lunches participate in that program. Many of the children who drop out when prices go up and many of themaAre the children of low income families who need the school program nutritionally balanced meals to augment the limited nutrition available to them in their homes.

CHILD CARE FOOD PROGRAMS

Likewise, I oppose subjecting families participating in family day care programs to a means test for Child Care Food Program subsidies as I think it would seriously damage this vitally needed system of day care. This program was cut 30 percent or $30 million already and a means test would cut another $50 million.

Most family day care providers are lo-income women who care for several children in their own homes. The National Day Care Home Study found that parents using family day care had average incomes in the $12,000 to $14,000 range. The cost of day care itself can be a significant financial burden for these families.

A family home day care provider in my state tells me that if the means test is instituted, she will NOT be able to supply the same high standard of nutrition with money she earns and she cannot raise her day care rates high enough to make up the difference. I believe she is typical.

Again, budget cuts based on establishing a means test for program participants would not, I believe, target support towards the poor. It would seriously weaken the whole program with the effect of depriving all of the children, including the poor.

WOMEN, INFANTS and CHILDREN

I am pleased that the Women, Infants and Children program has not been slashed and that the Administration budget included full funding for this vital program. However, I urge the subcommittee to do all that is possible to see that the full amount appropriated by Congress for 1985 is released and distributed by the Department of Agriculture. The WIC program is now available to only about one-third of the low-income pregnant women, infants and children who are nutritionally at risk. If the full appropriation is not released by the Administration, several hundred thousand participants may have to be dropped from the program. We cannot let that happen.

TEMPORARY EMERGENCY FOOD ASSISTANCE ACT

This program must be continued beyond 1985 with a minimum of $50 million appropriated to cover the state costs of commodity distribution. Funds to states are absolutely essential for storage, transportation and maximum distribution to small communities. Now low-income people have come to rely on these commodities to supplement their already meager resources and we must assist the states in getting the food to them.

FOOD STAMPS

The Administration proposals of $56.3 million in savings is questionable. I urge the Committee to carefully review how these savings could be made without cutting Food Stamps essential to maintain adequate nutrition for the very poor. Workfare proposals have not proven to be cost effective and have not been implemented by any state.

AGRICULTURE RESEARCH SERVICE

Montana's economy is largely agricultural based. A strong and continuing research program in necessary to help solve problems related to agriculture and to protect the state's natural resources. Control of pests such as weeds is a top priority issue, particularly since multi-million dollar weed losses are making major inroads in our range production capacity.

Ground has recently been broken for a $5.3 million, 60,000 square foot plant science laboratory and greenhouse facility at Montana State University. This new laboratory will place Montana at the forefront of plant related research, including biological control of pests. High level containment facilities will be available for studies on insects in biological control. However, to enable the research program to have a complete capacity to serve local, regional and national concerns, a final greenhouse and laboratory component must be added to expand this ability to work with plant diseases. The cost for this expansion is $900,000 for the laboratory and $400,000 for an additional greenhouse wing.

A strong working relationship exists between the USDA-ARS research staff on the MSU campus and the Montana Agriculture Experiment Station scientists. The expansion of this state of the art facility will strengthen the ability of the USDA-Montana team and allow a much more efficient and effective research program to serve our country. For the Agriculture Research Service to be able to assist in this undertaking, a specific appropriation by Congress is needed. I hope that you will recommend funding of this $1.3 million for construction of the MSU plant disease research facility to the full Committee.

BRUCELLOSIS ERADICATION

Mr. Chairman, over the past several years we have made great strides in our efforts to completely eradicate brucellosis in this country. It must be remembered that this virus is not just limited to domestic animals, but man is also susceptible. In 1950 there were over 5,700 cases of human brucellosis reported by physicians. Last year there were less than 200 of such cases. The dollar loss to our livestock producers have also decreased dramatically over the same period of time.

In 1950 the loss of livestock amounted to about $100 million (in 1950 dollars). Last year the loss to producers was less than $40 million.

It is due to this success that the Administration proposes to phase down the brucellosis eradication program over a period of years and ultimately maintain only a surveillance program. Under this plan, states with high incidence of brucellosis will be required to contribute a greater share of the program costs. I have no real problem with this, but the over all affect such a phase down would have nationally is being over looked in this proposal.

In the absence of adequate federal participation, many of the states with low incidence of brucellosis will try to maintain this status by limiting the interstate transportation of livestock. In addition, a drastically reduced federal program could well have unintended but serious impact on cattle and swine exports.

Again, Mr. Chairman, I think we have come a long way in this area, and I think we can see light at the end of the tunnel. However, I think it is very important that the Federal Government maintain its strong position in brucellosis eradication and the Animal and Plant Health Inspection Service remains the lead agency in this effort.

ANIMAL WELFARE

This government's commitment to animal welfare is being put to the test by an Administration that feels this responsibility should be left to the states and humane groups to enforce. If we here in Congress believed that, Mr. Chairman, we would not have passed the Animal Welfare Act and placed the responsibility for its administration in the hands of the Secretary of Agriculture.

I know the that the temptation simply to fund the Animal Welfare function of the Animal and Plant Health Inspection Service at the FY85 levels is great, but I want to point out that this function has been frozen since 1982. It represents a concerted effort by APHIS inspectors, but the funding level simply does not provide for adequate preventative measures that would go a long way in maintaining compliance of the letter and spirit of the Animal Welfare Act.

There are several areas I feel have been inadequately addressed in during the past several years. The most visible is, of course, on-site inspections of research facilities employing animals in experiments. There are a little over 1,100 research facilities currently licensed by the APHIS. Within these research facilities there are approximately 3,300 "sites". The APHIS has over the years expressed a desire to inspect each research site 4 times per year. The APHIS has also informed me that the cost of each site visit is about $130.

During FY 84 the APHIS allocated $481,996 for the purpose of inspecting research facilities. Now, using the APHIS's data, it would appear that an additional $1,297,000 would be needed to provide the APHIS with the necessary resources to carry out this function.

LETTER FROM SENATOR MURKOWSKI

April 19, 1985

Honorable Thad Cochran, Chairman
Subcommittee on Agriculture,
Rural Development, and Related Agencies
United States Senate
Washington, D.C. 20510

Dear Senator Cochran:

I appreciate your invitation to comment on the proposed budget for the Rural Electrification Administration. The program is important to Alaska.

I am vitally concerned about the Administration's FY '86 proposal to phase out REA and to increase interest rates on revolving loans. I want to highlight the fact that the budget assumptions of electricity surplus and no loan demand are not applicable to the State of Alaska.

In Alaska, there is no surplus of electricity. There are over 200 villages throughout rural Alaska (an area slightly less than the size of Texas, California, and Montana combined). A handful of these rural villages are accessible by road and, villages with electricity pay a dear price for it. Moreover, the range of electricity rates is great. The weekly cost of providing electricity to Alaska's largest community, Anchorage is $55.75 per 1000 kwh and in the village of McGrath the cost is $261.96 per 1000 kwh.

REA electricity loan demand for Alaska is increasing. REA loan demand in Alaska for FY'84 was $60.2 million, projected demand for FY'85 is $68.6 million.

Similarly for phone service, there is loan need. Telephone coops in Alaska have difficulty obtaining private financing. The average investment for establishing phone service in Alaska can be as high as $7000 per consumer, compared with a national average of $900-$1200 per consumer.

The most important aspect of phone service in remote Alaska is for intra-Alaska long distance calls. Roads in Alaska cover only one tenth of the State. Phones are rural Alaska's roads. Air service is costly and mail service hampered by severe weather conditions. Phone communication is essential for village contact with the outside world for education (elementary and secondary correspondence study), business transactions, and emergencies.

Before Congress acts upon a budget proposal based on sweeping generalizations, I hope every consideration will be given to those areas that can truly demonstrate need for these loans such as Alaska.

I am enclosing a brief statement from REA representatives in Alaska for inclusion in the hearing record. Again, thank you for the opportunity to comment on this program.

Sincerely,

Frank H. Murkowski
United States Senator

Statement of Alaska Rural Electrification Administration Co-ops

Loans from the Rural Electrification Administration have made electric service possible in high cost areas across the country in which it had not otherwise been made available. In Alaska, these areas served becasue of the REA progeram contain at least 70% of our population, by far the highest percentage in the country.

Most of Alaska is undeveloped at this time and has no electric service at all. Some areas of Alaska are developing very rapidly and as a result, the local REA financed cooperativs in those areas are among the fastest growing utilities in the country. Becasue of this rapid growth, their financial resources are stretched to the limit and financing outside the REA program may not be available to some of them at any cost.

An example of this problem of financing not being available is provided by Alaska Electric Generation and Transmission, Inc., a new generation and transmission cooperatiave organized to provide the future power supply for Homer Electric Association and Matanuska Electric Association. REA has declined to finance a new 40MW gas fired unit which is needed to meet the peak demand at Homer Electric for the winter of 1985-86. This refusal by REA is a policy matter related to its effort to close its doors rather than being based on the merits of the loan application. No other lending source has been found, and there is a very serious danger that much of southcentral Alaska will be without power on the coldest days next winter. This would be much more than inconvenient, it could be life threatening.

In Alaska, our need for REA loans is intensified because of the conditions under which our coops provide utility service to their members. There are vast distances, frequently of very difficult terrain, from one developed area to the next. Most of our coops serve in isolated enclaves of population which are not electrically interconnected with anyone beyond the local community. The populations served by these isolated systems are small, and the cost of living and doing busines is very high. We have long and severe winters which increase both the cost and the importance of our service.

Even if other financing were generally avaialbe, the increased cost which would be faced by Alaska's electric cooperatives is a very serious matter. Of the 14 REA borrowers in Alaska, 8 have retail rates for part or all of their systems of approximately $.20 per KWH or greater. Two of them have rates of approximately $.40 per KWH or greater. Modern life was brought to these areas with electric service provided by REA loans. It is unreasonable and irresponsible now to make the electricity too expensive for the consumers to pay for it by ending the REA program.

The REA engineering standards program is a very low cost effort with very substantial benefits. The uniformity this program brought in materials requirements and working conditions has been extremely important in the development and operation of electric systems in rural areas throughout the country, including Alaska. If this uniformity is lost, our costs will increase and new safety hazards will be introduced into the work environment of our employees.

REA is important to all of rural America, but it is absolutely essential for rural Alaska.

LETTER FROM BILL SHEFFIELD, GOVERNOR OF ALASKA

April 19, 1985

The Honorable Thad Cochran
Chairman
Subcommittee on Agriculture, Rural
Development & Related Agencies
Senate Appropriations Committee
SD-140 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

As you know, the Senate Appropriations Subcommittee on Agriculture, Rural Development & Related Agencies has been reviewing the budget for the Rural Electrification Administration (REA). It is very important to the consumers of the REA cooperatives in Alaska that Congress maintain the REA loan programs and appropriate sufficient funds to keep these programs strong and functioning. They are the major source of financing for rural electric and telephone systems which provide service in vast areas of low population density in Alaska.

The State opposes any budget plan that would put additional upward pressure on utility rates that are already on the average higher than those paid in other states. In particular, the State opposes the Senate - White House budget compromise which would phase out the REA loan programs over an eight year period, and would require an immediate increase in interest rates for direct loans to levels which are 1 1/8 percent higher than the normal Treasury rate.

The REA and its associated loan programs have played an important role in the continued economic health and development of rural areas in this country. The work of the REA is by no means done. I urge you to act to provide adequate and continued funding for the REA loan programs.

Thank you for your consideration of this request.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

Letter From Senator Pressler

The Honorable Thad Cochran
Chairman
Subcommittee on Agriculture, Rural
  Development and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

April 16, 1985

Dear Mr. Chairman:

I would first like to thank you for giving me the opportunity to express my views on the Fiscal Year 1986 Agriculture, Rural Development and Related Agencies budget request. Coming from the rural state of South Dakota, the funding for agricultural programs is of great concern to me.

The agricultural sector is willing to take its fair share of budget cuts to reduce the federal deficit. However, under the Administration's budget proposal, agriculture is being asked to take more than its fair share of cuts. The proposals to virtually eliminate the Soil Conservation Service and phase out the rural electrification program and other cuts are of great concern to me and South Dakotans. I have, for some time now, supported an across-the-board freeze on all federal spending. Most South Dakota farmers and ranchers would also support such an action as a means of reducing the deficit.

Some of the proposed budget cuts which are of specific concern to me are:

1. phasing out the REA program over the next eight years. The REA program has been one of the most effective federal programs in our history. Without it, many rural areas might still be without electric and telephone service. Some modifications, such as an increase in the interest rate and targeting of loans to truly rural areas, may be needed to continue a cost-effective program. But some type of REA loan program is critical to providing affordable electric and telephone service to rural areas such as South Dakota.

2. major reductions in soil and water conservation programs. Topsoil is our nation's most valuable resource. We must protect it. To reduce soil erosion, we must continue effective conservation programs. Again, some changes could be made in these programs to make them more effective, but I do not think we can afford to make the major funding cuts that are proposed for soil and water conservation.

3. major changes in the farm credit programs. With current financial problems which many farmers face, I do not feel this is the proper time to eliminate or make major changes in farm credit programs. In many cases, farmers cannot afford to pay higher interest rates. Most farmers need lower interest rates to restore their operations to a profitable status. The phasing out of FmHA direct lending programs, imposing user fees for FmHA loan guarantees and farm credit system loans would only increase the cost of borrowing money for farmers and ranchers.

These are just a few of the major budget cuts that are of concern to me. It is also imperative that we maintain an effective agricultural research and extension program, meat and grain inspection program, school lunch and nutrition program, and other agricultural and nutrition programs. Many of the changes proposed in the budget for agriculture might be commendable and I would normally support them, but in these troubled times on the farm, they cannot be absorbed. Now is not the time to ask farmers and ranchers to take major budget cuts.

I would like to conclude by reiterating that South Dakota farmers and ranchers are willing to take their fair share of budget cuts to help reduce the federal deficit. However, they are not willing to take more than their fair share. I urge your Committee to be fair and equitable to all sectors of agriculture when the 1986 Agriculture, Rural Development and Related Agencies appropriations bill is considered.

Thanks again for the opportunity to express my views.

Sincerely,

Larry

Larry Pressler
United States Senator

STATEMENT OF LARRY A. WERRIES, PRESIDENT, NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM LARRY A. WERRIES, DIRECTOR OF THE ILLINOIS DEPARTMENT OF AGRICULTURE AND PRESIDENT OF THE NATIONAL ASSOCIATION OF THE STATE DEPARTMENTS OF AGRICULTURE. TODAY, I TESTIFY BEFORE YOU IN MY CAPACITY AS PRESIDENT OF NASDA. IN THE INTEREST OF TIME, I WILL SUMMARIZE THE TESTIMONY, BUT I RESPECTFULLY ASK THAT THE FULL TEXT OF MY TESTIMONY BE MADE A PART OF THE HEARING RECORD.

THE NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE REPRESENTS THE DEPARTMENTS OF FOOD AND AGRICULTURE IN THE FIFTY STATES AND THE U.S.TERRITORIES OF GUAM, AMERICAN SAMOA, PUERTO RICO AND THE VIRGIN ISLANDS. THESE STATE AND TERRITORIAL AGENCIES WORK CLOSELY IN COOPERATIVE PARTNERSHIP WITH THE U.S. DEPARTMENT OF AGRICULTURE AND THE FOOD AND DRUG ADMINISTRATION. THE FEDERAL BUDGET HAS A TREMENDOUS IMPACT ON BUDGET PLANNING AND PROGRAM POLICYMAKING AT THE STATE LEVEL. THIS IS ESPECIALLY TRUE OF PROGRAMS THAT ARE CARRIED OUT ON THE BASIS OF COST SHARING AND COOPERATIVE FUNDING AND MANPOWER AGREEMENTS.

OUR ASSOCIATION HAS LONG BEEN ON RECORD AS SUPPORTING A BALANCED FEDERAL BUDGET AND A MAJOR REDUCTION IN THE FEDERAL DEFICIT. WE REEMPHASIZE THAT POLICY. HOWEVER, WE DO NOT BELIEVE THE DEPARTMENT OF AGRICULTURE SHOULD TAKE MORE THAN ITS EQUAL SHARE OF THE PROPOSED CUTS IN THE 1986 BUDGET. THE BUDGET BEFORE YOU CARRIES THE NEXT HIGHEST PERCENTAGE OF CUTS IN THE WHOLE FEDERAL BUDGET. WE BELIEVE IT IS GROSSLY UNFAIR TO THE FARMERS AND RANCHERS OF THIS NATION, ALONG WITH THE GENERAL CONSUMING PUBLIC.

NEXT, MR. CHAIRMAN, MOST OF THE PROGRAMS THAT WE ADMINISTER AT THE STATE LEVEL ARE FEDERALLY-MANDATED PROGRAMS THAT BENEFIT NOT ONLY OUR AGRICULTURAL COMMUNITY, BUT ALL CONSUMERS OF AMERICAN FOOD PRODUCTS. MOST OF THESE ARE COOPERATIVE PROGRAMS, FUNDED BOTH BY

THE FEDERAL GOVERNMENT AND THE STATES. IN SOME CASES, THE INDUSTRIES ALSO ARE INVOLVED. WE BELIEVE THESE TYPES OF PROGRAMS HAVE BEEN VERY COST-EFFECTIVE, WITH THE COST-SHARING EQUALLY BORNE BY THE STATES AND THE FEDERAL GOVERNMENT. THE PROPOSED 1986 BUDGET GUTS MANY OF THESE PROGRAMS.

WE WILL CONFINE OUR TESTIMONY TO COOPERATIVE PROGRAMS IN SUCH AREAS AS ANIMAL AND PLANT HEALTH INSPECTION, DOMESTIC AND INTERNATIONAL MARKETING, MEAT AND POULTRY INSPECTION, SOIL AND WATER CONSERVATION, AND FDA CONTRACTS TO STATES.

BRUCELLOSIS

WE ARE LONG-TIME SUPPORTERS OF A NATIONAL BRUCELLOSIS ERADICATION PROGRAM THAT WOULD RID OUR LIVESTOCK INDUSTRY OF THIS DISEASE ONCE AND FOR ALL. IT CAN BE DONE, JUST AS WE RID THIS COUNTRY OF HOG CHOLERA. WE CAN DO IT IN THE NEXT SEVEN TO TEN YEARS, MAYBE SOONER. WE HAVE BEEN WORKING WITH THE AMERICAN FARM BUREAU, THE NATIONAL MILK PRODUCERS FEDERATION AND THE NATIONAL CATTLEMENS ASSOCIATION IN DEVELOPING BROAD GUIDELINES FOR SUCH A PROGRAM. WE HAVE DEVELOPED THOSE GUIDELINES AND WE BELIEVE THAT WITH USDA, THE STATES, AND THE INDUSTRY WORKING TOGETHER, WE CAN MAKE THIS A REALITY. IT WILL NEVER HAPPEN IF THE USDA CONTINUES TO ATTEMPT A COMPLETE PHASE-DOWN OF THIS PROGRAM AND FAILS TO RECOGNIZE ITS RESPONSIBILITY IN PROVIDING ITS SHARE OF THE FUNDING NECESSARY TO ACCOMPLISH THESE GOALS.

IN 1985, CONGRESS FUNDED THIS PROGRAM AT $73.4 MILLION, THE 1986 BUDGET REQUEST IS FOR $58.5 MILLION. IF YOU FUND THE 86 PROGRAM AT THE REQUESTED LEVEL, IT WILL SET THIS PROGRAM BACK CONSIDERABLY AND ULTIMATELY COST EVERYONE MUCH MORE.

WE RESPECTFULLY REQUEST THAT YOU RESTORE THE FUNDING TO AT LEAST THE $73.4 MILLION LEVEL AND WORK WITH US IN IMPLEMENTING A PLAN WE

HAVE DEVELOPED. IF WE CAN IMPLEMENT THIS PLAN, WE WILL BE FREE OF THIS DISEASE WHICH ADVERSELY AFFECTS BOTH ANIMALS AND HUMANS AND WITHIN A FEW YEARS I BELIEVE THERE WILL BE NO ONE SITTING IN FRONT OF YOU REQUESTING FUNDING FOR BRUCELLOSIS.

GYPSY MOTH

GYPSY MOTH IS NOW BEING FOUND THROUGHOUT THE UNITED STATES. THIS PEST IS CAPABLE OF WIDESPREAD DESTRUCTION, AND ERADICATION OF THE MOTH, WHERE POSSIBLE, IS EXTREMELY COST-EFFECTIVE. THE REGULATION OF HOUSEHOLD AND BACKYARD ARTICLES HAS HELPED CURTAIL THE MOVEMENT OF THE MOTH, AND ADEQUATE FUNDING FOR THIS PROGRAM IS IN THE BEST INTEREST OF EVERYONE. WE RECOMMEND $5,175,000. FOR 1986, THE SAME AS IN 1985.

IMPORTED FIRE ANT

THE 86 BUDGET REQUESTS $300,000 FOR IMPORTED FIRE ANT. WE URGE YOU TO RESTORE THIS TO THE 1985 LEVEL OF $5,809,000. THE FIRE ANT IS SPREADING AND THE ECONOMIC IMPACT OF THIS PEST IS ENORMOUS. TO WITHDRAW ALL FEDERAL SUPPORT FROM THIS PROGRAM WOULD BE DISASTROUS AND WOULD ALLOW THIS PEST TO CONTINUE ITS MARCH ACROSS THE UNITED STATES.

GRASSHOPPER & MORMON CRICKET

THE REDUCTION OF FEDERAL FUNDING FOR THE GRASSHOPPER/MORMON CRICKET PROGRAM WOULD SEVERLY HAMPER SURVEY WORK IN THE FIELD. THIS WOULD LIMIT OUR ABILITY TO RESPOND TO A SERIOUS OUTBREAK IF ONE SHOULD OCCUR. WE URGE YOU TO RESTORE FUNDING FOR THESE PROGRAMS TO THE 1985 LEVEL.

NOXIOUS WEEDS

THE REDUCTION OF FEDERAL FUNDING FOR THE NOXIOUS WEED PROGRAM WOULD CAUSE THE ELIMINATION OF SUPPRESSION PROGRAMS AGAINST COMMON CRUPINA, ITCHGRASS, GOATSRUE, AND HYDRILLA. ALL FOUR OF THESE WEEDS ARE POTENTIALLY SERIOUS ECONOMIC RISKS WHERE THEY ARE FOUND IN THE UNITED STATES. LOSSES DUE TO THE WEEDS AND THE COST OF CONTROL IN THE U.S. ARE ESTIMATED TO BE $18 BILLION ANNUALLY, FAR MORE THAN LOSSES CAUSED BY INSECTS OR DISEASES. FULL FUNDING OF THE FEDERAL NOXIOUS WEED ACT IS A WISE AND PRUDENT INVESTMENT. WE URGE YOU TO FUND THIS PROGRAM AT THE 1985 LEVEL OF $789,000.

WITCHWEED

THIS SERIOUS PARASITE CAUSES LOSSES AMOUNTING TO APPROXIMATELY TEN PER CENT OF THE HOST CROP'S YIELD. IT SPREADS RAPIDLY AND IS CAPABLE OF INFESTING ALL CORN, SORGHUM AND SUGAR CANE GROWING REGIONS OF THE U.S. WE MUST NOT ALLOW THIS TO HAPPEN. IT IS NOW CONFINED TO NORTH AND SOUTH CAROLINA. WE REQUEST THAT FULL FUNDING BE RESTORED AT $4,723,000, AND THAT THE SUBCOMMITTEE CONSIDER A STEPPED UP PROGRAM OF ERADICATION IN 1987.

SOIL AND WATER CONSERVATION

SOIL AND WATER CONSERVATION HAS ALWAYS BEEN A VERY HIGH PRIORITY OF THE ASSOCIATION. WE ARE ALARMED BY THE PROPOSED DEEP CUTS IN THE SOIL AND WATER CONSERVATION ACTIVITIES OF THE SOIL CONSERVATION SERVICE AND THE AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE. TOTAL USDA CONSERVATION SUPPORT HAS DECLINED FROM MORE THAN ONE BILLION DOLLARS IN FISCAL 1983 TO CURRENT YEAR FUNDING OF $814 MILLION. THE PROPOSAL FOR 86 IS $454 MILLION AND BY 87, THE SOIL AND WATER CONSERVATION PROGRAMS, WHICH HAVE DONE SO MUCH TO PRESERVE AND CONSERVE THESE NON-EXPENDABLE NATURAL RESOURCES WOULD, FOR ALL PRACTICAL PURPOSES, BE PHASED

OUT. THE NATION'S SOIL AND WATER RESOURCES ARE UNDER INTENSE PRESSURE AND OUR FUTURE AGRICULTURAL PRODUCTIVITY DEPENDS AS NEVER BEFORE ON THE CONSERVATION AND ENHANCEMENT OF THESE PRECIOUS RESOURCES. THIS IS NOT THE TIME TO CUT BACK ON OUR CONSERVATION COMMITMENT NOR TO VIRTUALLY ABANDON THE COOPERATIVE, COST-SHARING APPROACH WHICH HAS BEEN THE CORE OF OUR NATIONAL CONSERVATION APPROACH FOR HALF A CENTURY.

THE ASSOCIATION THEREBY RESPECTFULLY REQUESTS THAT THE SUBCOMMITTEE RESTORE THESE VITAL PROGRAMS TO AN APPROPRIATE LEVEL TO ASSURE A CONTINUATION OF OUR SOIL AND WATER CONSERVATION PROGRAMS.

MARKETING

OUR ASSOCIATION HAS ALWAYS FELT THERE IS NO BETTER WAY OF BOOSTING FARM AND RANCH INCOME THAN THE EXPANSION OF MARKETS OF U.S. AGRICULTURAL PRODUCTS. FARM PROSPERITY INCREASINGLY DEPENDS ON MARKETING SYSTEMS THAT ARE MODERN, EFFICIENT, ADAPTABLE, AND AGGRESSIVELY COMPETITIVE.

DURING THE PAST DECADE, THE FEDERAL GOVERNMENT, THE STATES, AND THE PRIVATE SECTOR HAVE POOLED THEIR RESOURCES AND EXPERTISE IN A NUMBER OF INNOVATIVE AND PROMISING COOPERATIVE VENTURES AIMED AT EXPANDING OUR EXPORT MARKETS. SOME OF THE BEST EXAMPLES OF THIS PARTNERSHIP ARE THE VARIOUS COOPERATIVE PROGRAMS FUNDED IN PART BY THE FOREIGN AGRICULTURAL SERVICE'S EXPORT MARKET DEVELOPMENT PROGRAM.

FOR EXAMPLE, FAS HELPED OUR ASSOCIATION SPONSOR A HIGHLY SUCCESSFUL EXPORT TRADE SHOW IN ATLANTA, GEORGIA IN 1983. THE EXPOSITION ATTRACTED 414 U.S. FOOD FIRMS AND OVER 1000 FOREIGN BUYERS FROM 78 COUNTRIES. THEY BOUGHT APPROXIMATELY $200 MILLION WORTH OF U.S. FOOD PRODUCTS.

ON APRIL 22-24 OF THIS YEAR, IN KANSAS CITY, MISSOURI, WE WILL HOLD OUR SECOND SHOW IN COOPERATION WITH USDA. WE EXPECT OUR EXHIBITORS TO REACH 500 AND OUR BUYER LIST TO GO TO ABOUT 1500. IF SO, THE SHOW COULD EASILY PRODUCE $250 TO $300 MILLION IN SALES. THIS IS TRUE COOPERATION IN PRACTICE, AND IT HAS THE POTENTIAL FOR TREMENDOUS GROWTH IN THE FUTURE.

THE EXPOSITION WOULD NOT BE POSSIBLE WITHOUT FAS' FINANCIAL SUPPORT. THIS IS JUST ONE OF SEVERAL HIGHLY PROMISING EXPORT PROJECTS UNDERTAKEN BY FAS ON A COOPERATOR BASIS WITH STATES AND PRIVATE SECTOR COMMODITY GROUPS. BY PARTICIPATING IN THE TRADE SHOW, THE INDIVIDUAL STATES MAKE DIRECT FINANCIAL CONTRIBUTIONS TO THE SUCCESS OF THE SHOW IN PERSONNEL, TRAVEL, ADMINISTRATION AND OTHER DIRECT WAYS WELL IN EXCESS OF $1.5 MILLION. WORKING TOGETHER WITH FAS, WE HOPE TO BUILD THIS SHOW INTO ONE OF THE TOP FOOD SHOWS IN THE WORLD. WE ARE ALREADY WELL ON THE WAY. WE APPRECIATE THE FINE SUPPORT AND WORDS OF ENCOURAGEMENT WE HAVE RECEIVED FROM THIS SUBCOMMITTEE. WE FAVOR THE FAS BUDGET AND URGE THIS SUBCOMMITTEE TO FUND THE MARKET DEVELOPMENT PROGRAMS AT THE FY 1985 LEVEL.

AS WE WORK TOWARD EXPANDING OUR OVERSEAS MARKETS, WE MUST NOT NEGLECT OUR DOMESTIC MARKETING AND FACILITIES. THIS IS PRIMARILY A TASK FOR THE PRIVATE SECTOR, BUT GOVERNMENT HAS A SUPPORTING ROLE TO PLAY. TWO PROGRAMS OF THE AGRICULTURAL MARKETING SERVICE HAVE BEEN ESPECIALLY SUCCESSFUL IN HELPING TO MODERNIZE DOMESTIC MARKETING AND REDUCE MARKETING COSTS. THESE PROGRAMS ARE THE FEDERAL/STATE MARKETING IMPROVEMENT PROGRAM AND THE WHOLESALE MARKET DEVELOPMENT PROGRAM. WE ARE ESPECIALLY CONCERNED ABOUT FSMIP, WHICH REQUIRES MATCHING FUNDS FROM PARTICIPATING STATES. THESE PROGRAMS ARE STILL VITAL AND NEED TO BE CONTINUED. WE RESPECTFULLY URGE THAT BOTH PROGRAMS BE RESTORED TO 1985 FUNDING LEVELS.

MEAT AND POULTRY INSPECTION

THE ADMINISTRATION IS PROPOSING THE COMPLETE ELIMINATION OF FUNDING FOR ALL MEAT AND POULTRY INSPECTION PROGRAMS BY 1988 THROUGH THE IMPLEMENTATION OF A USER FEE SYSTEM. WE STRENUOUSLY OPPOSE SUCH A MOVE. FIRST, THESE ARE FEDERALLY-MANDATED FOOD SAFETY PROGRAMS, AND ALL CONSUMERS IN THIS NATION AND MANY ABROAD ARE PROTECTED BY THE FEDERAL AND STATE INSPECTION PROGRAMS. WE BELIEVE THESE TYPES OF PROGRAMS, FEDERALLY-MANDATED AND SERVING ALL THE PEOPLE, SHOULD NOT BE FUNDED BY USER FEES, WHICH PLACES THE BURDEN ON AN INDUSTRY AND THE AGRICULTURAL COMMUNITY. THE PROGRAMS SHOULD CONTINUE TO BE FUNDED AS THEY HAVE BEEN IN THE PAST. WE URGE YOU TO RESIST THIS MOVE TO A USER FEE CONCEPT, AND ASK THAT YOU SUPPORT ADEQUATE FEDERAL FUNDING FOR OUR MEAT AND POULTRY INSPECTION PROGRAMS, BOTH FEDERAL AND STATE.

FDA CONTRACTS WITH STATES

SINCE 1973, THE FOOD AND DRUG ADMINISTRATION HAS CONTRACTED WITH STATE DEPARTMENTS OF AGRICULTURE AND OTHER STATE AGENCIES FOR THE PERFORMANCE OF FOOD, FEED AND MEDICAL EQUIPMENT INSPECTIONS BY STATE PERSONNEL. THIS ARRANGEMENT SAVES TAX DOLLARS BECAUSE IT PERMITS A MORE EFFICIENT USE OF STATE INSPECTORS AND CUTS FDA PERSONNEL COSTS. FDA CONTRACTS WITH STATES ARE FUNDED THROUGH THE AGENCY'S FIELD OPERATIONS BUDGET. THE 1985 BUDGET FOR THIS IMPORTANT PROGRAM WAS $5.689 MILLION, AND WE RESPECTFULLY REQUEST THE SAME FOR 1986.

SUMMARY

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, WE HAVE CONFINED OUR TESTIMONY TO BASIC FEDERAL/STATE COOPERATIVE PROGRAMS. PROGRAMS THAT WE, IN MOST CASES, ADMINISTER AT THE STATE LEVEL AND MUST DEFEND AND SEEK FUNDING FOR IN-STATE LEGISLATURES THROUGHOUT THE

UNITED STATES. THERE IS A LONGSTANDING PROBLEM; WE INCLUDED IT IN OUR TESTIMONY LAST YEAR AND WE BELIEVE IT IS SUFFICIENTLY IMPORTANT TO AGAIN POINT OUT. I REFER TO THE PROBLEM OF ARBITRARY AND SUDDEN CUTBACKS IN FEDERAL SUPPORT FOR COOPERATIVE PROGRAMS. THIS PROBLEM HAS BEEN COMPOUNDED BY THE UTILIZATION OF DIFFERENT FISCAL YEAR CALENDARS, AND BY THE DELAYS IN THE FEDERAL BUDGET PROCESS.

MOREOVER, WHEN FEDERAL BUDGETS ARE REDUCED, STATE COOPERATIVE PROGRAMS OFTEN BEAR A DISPROPORTIONATE SHARE OF THE CUTS, DESPITE THEIR WELL RECOGNIZED COST-EFFECTIVENESS. FOR THIS REASON, WE ASK YOUR ASSISTANCE IN ADDING LANGUAGE TO THE APPROPRIATIONS BILL TO ASSURE THAT WHEN REDUCTIONS ARE NECESSARY, STATE COOPERATIVE PROGRAMS WILL NOT BE REQUIRED TO TAKE A GREATER CUT IN PERCENTAGE TERMS THAN THE BUDGET REDUCTION SUSTAINED BY THE COOPERATING FEDERAL AGENCY.

THE ASSOCIATION LOOKS FORWARD TO WORKING WITH THE SUBCOMMITTEE AND WE THANK YOU FOR THE OPPORTUNITY TO TESTIFY ON THE 1986 BUDGET. I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.

THANK YOU.

STATEMENT OF THE AMERICAN SOYBEAN ASSOCIATION

The American Soybean Association appreciates the chance to express its views on Department of Agriculture appropriations for the fiscal year 1986. ASA is a national non-profit commodity organization controlled by soybean farmers. We have some 26,000 dues-paying members and receive financial support from 425,000 farmers in 26 states who voluntarily invest in ASA activities through checkoff programs. ASA's objective is to build profits for America's 520,000 soybean farmers. ASA's major activities include expanding exports, promoting domestic sales, sponsoring soybean research, working for favorable public policies and providing information.

The Department of Agriculture's FY 1986 budget will be written in an atmosphere of austerity. Budget resources will be limited, and so it will be necessary to set clear priorities. We should like to offer a few suggestions for what those priorities ought to be.

Clearly, U.S. agriculture is part of an international marketplace today. Soybean farmers, for example, depend on foreign markets for 53 percent of our sales, in the form of both whole soybeans and soybean meal and oil processed in this country but shipped abroad. It follows that this nation must be competitive in selling its agricultural products. Competing is more and more difficult in a time when world recession, the overvalued dollar and foreign subsidies have reduced our export sales levels and our share of world markets. But there are ways the Department of Agriculture can bolster U.S. competitiveness. This increased ability to compete should be our goal, and it should be our priority in appropriating funds.

AGRICULTURAL RESEARCH NEEDS

Agricultural research has always been a high-yielding investment for the U.S. taxpayer: The dividends in increased yields, higher productivity and greater efficiency have been substantial. The need for research is perhaps greater than ever, but we must be mindful of today's realities: Our research priority should no longer be increasing production alone. Rather, factors such as the overvalued dollar make it imperative that we find ways to increase the efficiency of production, and to reduce production costs. In addition, developing new uses for our products should be a top priority.

MARKET DEVELOPMENT

ASA believes that USDA's cooperative market development program is a highly successful example of partnership between the public and private sectors. A recent study by Chase Econometrics found that farmer-funded market development raised soybean prices 8 cents per bushel per year during the past decade. The study also found that soybean farmers' gross income rose $57.50 per dollar invested overseas.

We therefore urge that adequate funding be maintained for the market development program. We believe USDA should make maximum use of private, non-profit groups like ASA to carry out foreign market development activities: In this way, the best talents of both the public and private sectors can be used to build long-lasting markets for American farm goods.

EXPORT PROMOTION

ASA believes we must make better use of all the tools available to us to sell more of our products overseas. This means more aggressive use of the GSM-102 credit guarantee program, to insure that all funds approved by Congress are in fact used. It means, too, that GSM-102 repayment terms should be tailored to the needs of willing customers, not arbitrarily limited to very short time periods.

In addition, we believe Congress should support a program that already exists but has never been extensively used: the GSM-301 intermediate credit program. The longer repayment terms offered by this program fit the needs of many potential U.S. customers. GSM-301 should be used to fund infrastructural investment in developing countries, so that they have the ports, the storage facilities and the transportation network to use more U.S. soybeans. Infrastructural investment today will mean more markets both today and tomorrow.

We would like to mention one Administration proposal that is of great concern to agriculture as a whole. As part of a planned government-wide policy, the Office of Management and Budget wants to impose a 5 percent origination fee on all GSM-102 export credit guarantees. To raise this fee, currently about one-third of one percent, to the 5 percent level would cripple GSM-102. Customers would be paying 31 cents per bushel more for U.S. soybeans -- and they simply would not use our credit guarantees. They would go to other exporting nations to buy. Under the OMB proposal, only the most cash-strapped of countries would continue to use our credit programs -- currently our most effective way of staying price-competitive in a time of unfavorable exchange rates. The 5 percent origination fee is, in reality, an export tax. We urge the Congress to prohibit the Administration from imposing such a tax.

Finally, though it is not under the direct jurisdiction of this Subcommittee, ASA would like to point out that U.S. agricultural exports are being held hostage today by a February 21 court decision that applied the cargo preference laws to USDA's Blended Credit program and, potentially, to all commercial export sales where USDA provides credit terms. Cargo preference increases the cost of U.S. grain and soybeans by about $40 per tonne. In today's competitive international agricultural marketplace, such added costs will make it impossible for U.S. agriculture to compete.

Until Congress overturns this court ruling, and exempts all agricultural commodities from cargo preference, the nation cannot take action to increase agricultural exports. That's why there is no more important issue for farmers today than cargo preference.

We appreciate the chance to communicate our views, and hope they prove helpful.

LETTER FROM JAMES J. BLANCHARD, GOVERNOR OF MICHIGAN

March 8, 1985

The Honorable Carl Levin
United States Senate
Washington, DC 20510

Dear Carl:

It has come to my attention that the administration's proposed federal budget for Fiscal Year 1986 includes enormous reductions in appropriations for conservation programs. Specifically, appropriations for the Soil Conservation Service of the U.S. Department of Agriculture are scheduled for a 67% reduction. This proposal would cripple national and state soil conservation and erosion control programs.

The effects of the proposed budget on soil conservation programs would be profound. Farmers and local governments would suffer in the absence of technical and financial assistance to address erosions and flooding problems. For the state and its 83 soil conservation districts and 60,000 cooperators, budget cuts of this magnitude simply are neither practical nor reasonable.

For Michigan, the proposed funding level for FY 1986 for the Soil Conservation Service is $4,060,000, a reduction of 49 percent. This decrease would require program reductions in state activities ranging from 35 to 85 percent; and area offices would be eliminated completely.

In addition, the Resource Conservation and Development (RC&D) program, watershed protection and flood prevention activities and erosion monitoring and inventories would be completely eliminated.

The elimination of RC&Ds seems particularly inappropriate and inconsistent with the President's stated policy that citizens should participate more actively in volunteer programs. RC&Ds offer technical expertise and a focal point for coordination; they provide a vehicle through which citizens participate in volunteer projects designed to preserve local natural resources. As a result, directly and indirectly, the community's economy, environment, and living standards improve.

The importance of soil and water conservation programs cannot be over-emphasized. If we have learned any practical lessons from dealing with environmental problems over the last 10-15 years, it is the fragile nature of our resources and the critical importance of prudent conservation practices. Maintaining realistic funding levels for this program, I believe, is a modest but excellent investment in the future of our vital natural resources.

I strongly urge you to review the proposed FY 1986 budget in light of the need to maintain our country's commitment to prudent resource management.

Sincerely,

James J. Blanchard

James J. Blanchard
Governor

LETTER FROM NEIL SAMPSON, EXECUTIVE VICE PRESIDENT, AMERICAN FORESTRY ASSOCIATION

April 19, 1985

Senator Thad Cochran
Chairman
Subcommittee on Agriculture and Related Agencies
Committee on Appropriations
140 SDOB
Washington, D.C. 20510

Dear Mr. Chairman:

This letter expresses the position of the American Forestry Association with regards to the U.S. Department of Agriculture's conservation budget for FY '86. We are pleased to have the chance to submit this statement for the written record.

We will direct our comments to the overall budget of the Soil Conservation Service, the Renewable Natural Resources Extension budget of the Extension Service, and the Forestry Incentives Program and the Agricultural Conservation Program of the ASCS.

The SCS has done a great deal of work in the past 8 years to sharpen and improve their programs under the encouragement of the Resources Conservation Act. They have targeted many programs, and improved management in virtually all phases of their activity. It is poor policy to reward such efforts with the kind of budget phase-out proposed by the Administration. We realize your lack of latitude in the face of the deficit situation, but would urge you to retain the SCS programs, particularly technical assistance and Watershed Protection, at the 1985 program levels.

When the Renewable Natural Resources Extension Act was passed in 1978, it enjoyed broad-based support from conservation organizations including wildlife and grazing, as well as forestry interests. Its primary function is to encourage the delivery of technical information and advice to small nonindustrial landowners. These people are the decision-makers on 58% of the nation's forestland, and 64% of our rangeland. Their attitudes and management decisions not only affect the level of natural resource commodity outputs from these lands, but also control the potential of these lands to provide wildlife habitat, soil and water protection, and outdoor recreation opportunities.

RREA encourages educational programs leading to more efficient, environmentally sound management of this vital component of our country's range and forest resource base. Federal support of these natural resource extension efforts serve as a magnet attracting funds from both private and public agencies and organizations for resource education programs. For every state level natural resource staff position provided by federal funds, state and local funds have generated 3 additional positions. Since the Senate must take the leadership in this program, we would urge you to establish the funding for FY 1986 at the $5 million level, which would allow for some compromise with the House position and still retain a viable program.

The agricultural conservation program was funded at a level of $190 million in fiscal '84 and '85, and is proposed for elimination in fiscal '86. We believe that funding for this program should be maintained at the $190 million level to cope with some of the very serious economic and conservation problems this country and its farmers are facing. We believe that the farmlands so vital to our future are experiencing levels of erosion and losses of soil fertility that must be controlled inorder to protect the continued productivity of these lands.

ACP cost-sharing encourages the installation of erosion control measures which protect both our land and water resources. Our nation as a whole benefits from the prevention of serious topsoil losses and water quality problems; the ACP program is needed to continue the fight for soil and water conservation.

AFA is concerned with the elimination of the forestry incentives program in the President's budget. Arguments are made that the federal government should not be supporting reforestation activites on private lands. That is an activity, supposedly, that should be the responsiblity of state and local institutions or the forest products industry's small woodland owner assistance program. Although we strongly support a cooperative approach to encouraging good management and reforestation, we feel that the federal government has an important part to play in this area. State and local agency budgets and the forest products industry connot handle the job alone.

The forestry incentives program has demonstrated its effectiveness in bringing about more acceptable levels of regeneration on cut-over lands. This in turn protects the future productivity of these areas, while allowing their continued economically and ecologically productive use. In the southeastern United States in particular, regeneration is not keeping up with harvests, and prime sights are reverting to low-value scrub hardwoods. FIP is a cost-effective method of addressing this problem.

We appreciate this chance to express our views.

Sincerely,

Neil Sampson

Neil Sampson
Executive Vice President

STATEMENT OF JACK A. BARNETT, EXECUTIVE DIRECTOR, COLORADO RIVER BASIN SALINITY CONTROL FORUM

Requesting additional funds over and above the 1985 budget request by the President for the Colorado River Basin Salinity Control Program

Including:

1) $5,100,000 for ASCS cost sharing
2) $2,000,000 for SCS technical assistance

The last Congress passed significant salinity control legislation for the Colorado River Basin which authorized a new Department of Agriculture program and requires the state and local entities to cost share in amounts about equal to the federal contribution. This newly authorized program will facilitate the salinity control efforts by the Department of Agriculture in the Colorado River Basin and will replace efforts that were started under general authorities already vested in the Department of Agriculture where approximately $4 million a year has been designated by the Congress over the last few years to be spent for salinity control.

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The waters of the Colorado River system serve some 17 million people and irrigate about 1.6 million acres in the seven Colorado River Basin states. The river also provides domestic and irrigation water to Mexico. Salinity has long been recognized as one of the major problems in the river. Water users, situated lower in the river system, presently suffer significant adverse impacts due to the river's salinity. It has been estimated that salinity damages currently amount to $100 million a year. Without salinity control measures, the river's salinity is projected to increase, further impairing the usefulness of this water supply, and the economic damages suffered by water users are expected to double by the turn of the century.

The Basin states concerns with the river's increasing salinity led them to create the Colorado River Basin Salinity Control Forum in 1973. The Forum, whose members are appointed by the governors of the respective states, developed a salinity control policy that calls for maintaining salinity concentrations at or below those levels found in the lower river in 1972 while the Basin states continue to develop their compact apportioned waters. The Forum has a continuing responsibility to see that a salinity control plan is implemented to meet the policy objectives.

In 1974, after discussion between the federal government, the Republic of Mexico, and the seven Colorado River Basin states, Congress enacted the Forum sponsored Colorado River Basin Salinity Control Act (P.L. 93-320). Title I of the Act established a program to reduce the concentration of salts in the Colorado River below Imperial Dam, the last diversion point in the United States, so that the United States could honor its commitments to Mexico. In Title II, the Act established a program which allowed the states and the federal government to work together to prevent salinity increases in the Colorado River above Imperial Dam, benefiting users in the United States as well as Mexico. The 1974 Act also created a Colorado River Basin Salinity Control Advisory Council, composed of governor appointed representatives of the Basin states, to advise the Secretaries of the Interior and Agriculture and the Administrator of the Environmental Protection Agency as to needed annual adjustments to the salinity control effort.

In 1984, congress enacted much needed amendments to the 1974 Act that were advanced by the Forum. The amendments, Public Law 98-569, authorized additional activities for the Departments of the Interior and Agriculture that are needed in order to meet the objectives of the Act. In recognition of the proven cost effectiveness of Agriculture's onfarm management activities in controlling river salinity in the Basin, a separate Colorado River Basin onfarm management salinity control program was authorized for the Department of Agriculture.

The Advisory Council, in working with Agriculture, made specific recommendations in its 1984 Annual Report relative to Fiscal Year 1986 funding of the salinity control efforts consistent with the newly enacted amendments. The President's proposed Fiscal Year 1986 budget activities called for no funding at all for Agriculture's onfarm program. This is despite the fact that the program has been funded in the past by congressionally designated ACP funds and the President has requested in the past two fiscal years more than $12,000,000 per year in anticipation of the new congressional authorization.

The proposed level of funding in the President's budget seriously jeopardizes the continued progress and effectiveness of the Colorado River salinity control efforts. It jeopardizes the very cost effective onfarm salinity control measures of the Department of Agriculture that were initiated in 1979.

At a time when the Nation faces significant financial difficulties, it is recognized that the Advisory Council's funding recommendations may not be totally achievable. However, to assure that salinity control efforts move forward in a timely manner, work should continue on the Department of Agriculture's onfarm program. To accomplish this, the President's budget needs to be increased by $7.1 million for Agriculture's onfarm program and associated technical assistance. The Federal government is not paying the entire cost of these salinity control activities. A combined State and local 51 percent sharing of costs has been agreed to with respect to the onfarm program.

STATEMENT OF WILBUR WHITE, PRESIDENT, KANSAS ASSOCIATION OF CONSERVATION DISTRICTS

I am President of the Kansas Association of Conservation Districts. I represent the 525 supervisors who govern our 105 local conservation districts, and some 100,000 farmers or rancher cooperators covering the entire State of Kansas.

We express our appreciation for the support this committee has given federal soil and water conservation programs in the past.

We have grave concern about the President's proposals to virtually eliminate the federal role in soil and water conservation in Fiscal Year 1986.

This month thousands of Americans all across this land are celebrating the 50th anniversary of the Soil Conservation Service. They have real cause for joyous celebration, for the soil and water conservation movement is one of the most positive events of the past half century in America.

In the 19th and early 20th century in America there was occurring a tremendous loss of soil and productive capacity from good farming land due to water erosion. Gullies deep enough to hold a pickup truck were formed. Farmers worked the land until it was worn out. Farms all across the South, the Northeast, and the Midwest had to be abandoned. Farmers moved on to better land to wear it out, too. As more and more of the American landscape began to look like a moonscape, thoughtful Americans became concerned. They looked for ways to preserve the land for the generations to come.

People who lived through the Dust Bowl Era of the 1930s in Kansas and other Great Plains states remember the terrifying black blizzards of dust that brought ruin and despair to thousands of farmers, ranchers, and whole communities. The years of drought and the continued cultivation of fragile land produced sand and silt that was picked up by high winds and scattered for hundreds of miles. One mighty duststorm on May 11, 1934, is believed to have moved 300 million tons of soil. Most of the soil that was swept from bare fields accumulated against nearby fences and farm buildings, and in road ditches. Most wildlife disappeared. Livestock and people in the Dust Bowl developed severe respiratory problems, and many of them died of the suffocating effects of the dust. Hundreds of thousands of people left the Dust Bowl area, including 80,000 people from the affected area in Kansas. They were convinced the area would forever be a desert.

But the Soil Conservation Service working through conservation districts helped changed all that. An agricultural industry that was on the verge of destruction grew to become the largest and most efficient food-producing factory the world has ever known. It fed our armed forces and those of our allies during World War II. This food quite possibly had as much impact upon the outcome of the war as all the noisy and destructive bombs and other armaments we rained upon the enemy.

In some parts of the Great Plains the drought of the 1950s was at least as severe as it was during the 1930s. But did we have another Dust Bowl? No, we did not, and it was because of the voluntary efforts of thousands of farmers and ranchers, with the help of federally funded conservation programs. The Great Plains Conservation Program passed by Congress at that time, gave much additional help. This program is still needed today just as much as it ever was.

What do we see today? If you have flown over the Midwest or seen it at close hand, you will know that tremendous progress has been made in the care of the land. We Kansans are proud of our conservation efforts over the years.

Kansas is the leading state in conservation tillage, terracing, and grassed waterways. We also are a leader in watershed construction. Kansas farmers have built 289,000 miles of terraces. This is equivalent to a terrace that would go around the equator twice and then reach to the moon.

Soil conservation practices required considerable input in planning expertise, contractor dedication, and financial investment for landusers. Even after the installation, the job is not complete.

Conservation doesn't end with the installation of a practice. No conservation practice lasts forever. Proper maintenance of conservation practices is essential.

The job of properly caring for our soil and water resources is far from complete. We may not be faced with the dust storms of the 1930s, but the economic pressures of today are similar for many. In spite of the tremendous progress made in soil and water conservation over the years, there is still much to do.

You know the old saying that "the housewife's work is never done." That's the way it is with soil conservation. The latest resource inventory showed that 160 million tons of soil are being lost each year from Kansas cropland.

Having 44 percent of the total cropland in Kansas adequately protected with the help of soil and water conservation measures has been a major accomplishment. But the remaining 56 percent indicates the scope of what yet needs to be done.

We maintain that the existing soil conservation program is the most efficient and cost-effective means of protecting our vital soil and water resources.

The Soil Conservation Service has one of the smallest budgets in the federal establishment. The conservation cost-sharing expenditures of the Agricultural Stabilization and Conservation Service (ASCS) are also a very small part of the federal budget. Besides that, conservation programs have already taken deep cuts in funding over the past several years.

The need to conserve our natural resources is of paramount importance not only to the agricultural industry, but to the nation as a whole. Our country is blessed with the lowest priced food and fiber in the world, and we can continue to retain that distinction only as long as we take proper care of our soil and water resources.

In addition, agricultural conservation practices have become a major topic in world export trade circles. Japan in particular has expressed concern that the United States will not continue to be a reliable source of agricultural commodities they need to import, unless we do a better job of conserving our precious topsoil.

One might argue that soil and water conservation is the responsibility of the individual farmer, and not of the federal government. But history has proved that to be a false notion. Not only does that idea tend to deprive the individual farmer of the expertise provided by the Soil Conservation Service, but it denies the government's responsibility to provide for the nation's food supply for the future generations.

Where should we be headed in 1986 with the economic realities that we face? There are no easy answers, but abolishing the Soil Conservation Service is no solution--it would only add to our problems. The conservation job is only about half done. Our land is our first line of defense and it must be protected.

Soil erosion and resulting sediment, water conservation, and flood control are much more than single-state problems. They are national problems, requiring national technical expertise. Sediment that causes severe problems in rivers and lakes often orginates from unprotected cropland many miles away, sometimes one or two states away.

Even though Kansas has been a leader in small watershed flood protection, there are still thousands of acres of productive flood plain land where crops are destroyed nearly every year. Eastern Kansas cities that lack groundwater to supply their needs are able to cooperate with sponsors of flood-control dams to obtain needed water storage.

The financial contributions of state governments are important to conservation progress, but they cannot be sustained without an adequate nationwide technical and financial foundation. Local conservation districts are a vital link in the conservation team, but without the Soil Conservation Service they would flounder like a ship without a rudder. State and local government and landowners in Kansas are already investing over $22 million this year in soil and water conservation. But this amount supplements and is dependent upon the more than $27 million provided by the federal government.

Let's speculate on what would happen in a typical conservation district. The district supervisors would be constantly battling to find funds to hire a technician, rather than meeting the most pressing conservation needs of the district.

Kansas has a number of conservation contractors who can construct structures more efficiently than farmers can. Contractors would become fewer in number, and a farmer wanting conservation work done may have a hard time finding a contractor.

Let's take a look at our national defense. I think we all agree that's important. History has proved time and time again that a country with a weak agriculture--and a low commitment to soil and water conservation--becomes too weak to defend itself. It takes generations to build back productive soil and provide enough good quality water, once these resources are destroyed or polluted.

National security means more than an ever-growing arsenal of costly weapons systems. Some of this military hardware dwarfs the entire soil conservation budget. For example, the Navy proposes to build 64 new submarines at a cost of $500 million each. It has been proposed to build over 4,000 cruise missiles at a cost of $3.2 million each. Wouldn't this nation be better off with only 63 new subs and 3,900 cruise missiles _and_ the federal conservation programs?

National security also means a strong, free, independent nation whose most precious resources--healthy people, fertile soil, and clean air and water--are protected by a vigorous nationwide soil and water conservation effort. Soil and water conservation deserves at least as great a priority as our military forces.

Kansas farmer Don Kozicek, one of the 10 finalists in 1984 in the National Endowment for Soil and Water Conservation Awards Program, puts it this way: "Soil and water are the two most precious things God ever created. We can have life without gold or petroleum, but not without soil and water."

Do we really want our nation's highly productive but fragile midsection to become another Ethiopia, where hundreds of thousands of people are starving to death because they have no means to deal with cropping and grazing practices that speed up the desert-forming process during a dry cycle?

Again, we thank you and urge that this committee continue its support of federal conservation programs.

LETTER FROM KATHERINE BECKER, ASSOCIATE SUPERVISOR, MIDDLESEX CONSERVATION DISTRICT

Appropriations Subcommittee on Agriculture,
Rural Development, and Related Agencies
Room SD 140
Dirksen Senate Office Building
Washington, D. C. 20510

April 12, 1985

Dear Sirs:

I oppose the proposal to cut the USDA Soil Conservation Service (SCS) budget. Our nation's greatness is due to its resources. These resources need to be protected. Every new generation needs to be trained in the wise use of our nation's assets and new land owners need to be helped to maintain or improve their soil. SCS is valuable in our nation's attempt to save our soil and water. The information SCS has and dispenses is not readily available elsewhere. SCS plays a key role in the education and training of now and future land users.

In Middlesex county, Massachusetts, the people who benefit from SCS' services are farmers, land owners, and any individuals or agencies concerned with land use. The information below relates to Middlesex county, but similar activities can be found in most any SCS office.

Middlesex county has 345 cooperators, people who are working with SCS to improve their land. There are 30,000 acres under plan in the county - including orchards, farms, woodlands, and recreation spaces.

In the past year SCS helped 1160 people who called or came to the office. Help provided included soils information, engineering, hydrology, or plant materials. SCS provides reference information for the general public through documents such as "Soil Potential Report for Septic Tank Absorption Fields" and the "Woodland Managers Guide". SCS was one of several groups which jointly created the "Woodland Managers Guide". This guide was made to help the small woodlot owner. Prior to the publication of this guide, there had been nothing available for the small woodlot owner in the state.

SCS provides planning assistance to the communities in Middlesex county. Advice and consultation on soil science, civil engineering, woodland management, geology, hydrology, biology, and recreation is available. Many of the towns routinely turn to SCS for help in reviewing proposed housing developments with respect to soils and drainage.

In cooperation with the Middlesex Conservation District, there are several workshops held yearly. These include a Woodland Management Workshop, a Teachers Workshop, a Farmers Workshop which provides the latest information and techniques in the use of pesticides, weed control, and conservation tillage, and Planning Workshops which include topics on drainage, soils maps usage, health and safety, and land use planning. SCS personnel instruct area high school students in natural resource inventorying and mapping.

I can see typical SCS contributions in the two miles between my house and the town center. There are two cooperators who have installed drainage in their fields with SCS' help. One, a dairy farmer, improved a corn field. The other, a vegetable farmer, improved his strawberry field. There is the industrial site uphill from the town well, which because of SCS is no longer the threat to the well it started out as. There is the school where the latest planning workshop was held. Without SCS these two miles would still have fields that flood every spring and maybe an unusable public well. SCS has been esential in preserving the resources in those two miles.

SCS is important to Middlesex county and to the whole country. Please maintain the funding for SCS.

Sincerely,

Katherine Becker

Katherine Becker
Associate Supervisor
Middlesex Conservation District

STATEMENT OF THE NAVAJO NATION

Thank you for this opportunity to present the Navajo Nation's comments on the FY 1986 Appropriations for the United States Department of Agriculture.

There are two specific areas which we would like to comment on. These are the Soil Conservation Service (SCS), and the Agricultural Stabilization and Conservation Service (ASCS) programs, both of which are of vital importance to the Navajo Nation.

USDA Soil and Water Conservation Programs

On February 7, 1980, the Navajo Tribal Council amended the Tribal Code in order to enter into an Intergovernmental agreement with the Soil Conservation Service (SCS). This enabled the Navajo Nation to designate Soil and Water Conservation Districts on the Navajo Reservation. Currently, there are five Conservation Districts serving approximately 2.5 million acres. Each District is staffed with one District Conservationist and one Technician. The purpose of these Soil and Water Conservation Districts was to improve the environment through basic conservation work on the reservation and to emphasize the need for additional programs and new methods to meet emerging and expanding problems. It has been only recently that Indian Tribes were allowed to participate in forming their own Conservation Districts, and thereby better utilizing the Department of Agriculture's Soil and Water Conservation Programs.

Currently, there are five Navajo Districts represented by a Board of Supervisors who are elected by the reservation communities. The Board develops and recommends long range programs for each particular area which specifically address the needs of the local community. Once a plan of work is designed, priorities are then developed and implemented.

The priorities established for the Navajo Reservation are: land use planning, control of wind and water erosion, pollution abatement, flood prevention, improved water quality, increased forage production and scenic enhancement. Recent studies by the Navajo Department of Agriculture, the Soil Conservation Service, and the University of Arizona Extension Services Program, indicate erosion problems on the Navajo Reservation are four times that of the national standard. The following figures indicate annual top soil losses as a result of water erosion:

Sheet erosion.....	6-9 tons per acre/per year.
Gully erosion.....	12-50 tons per acre/per year.
Disturbed erosion (bare land).......	50-70 tons per acre/per year.

Note: National standards for soil loss as a result of water erosion is set at 5 tons per acre, anything higher is considered severe.

It is estimated that 80% of all moisture that falls on the reservation is lost through rapid runoff. With the assistance of SCS, the Navajo Nation has begun to recognize the full range of measures which must be implemented to correct these problems. We need watershed planning and programs, improved range management, plant cover programs, community planning, engineering surveys and design, woodland improvements, soil surveys, irrigation water management, wildlife and recreational improvement, snow surveys, conservation education and development programs which provide multiple use of resources.

The current staff of the Soil Conservation Service provides minimal technical assistance, as well as indirect financial assistance. However, due to the increased awareness and growing demands for conservation on the Navajo Nation, the present staffing needs are inadequate.

The Navajo Nation receives a small percent of a total national budget through the Department of Agriculture's SCS program. The Administration has proposed reductions for the SCS program by two-thirds, from $600 million to $200 million. The stated justification for this proposed budget cut is the fact that there are other programs which could serve tribal needs. In reality, other programs such as the BIA's agriculture and range program are continuing to be reduced and have even been proposed for elimination. The Soil Conservation Service currently has $8,086,769 allocated to reservation conservation projects. The SCS has estimated that there is yet another $53,000,000 in unmet needs.

The Navajo Nation believes conservation and development of natural resources deserves the highest priority of the federal government. Allowing the depletion of our soil and water resources will cripple the ability of the Navajo Nation to achieve full economic self-sufficiency and increase our dependence on the federal government. Through the Soil Conservation Service we are making progress towards implementing sound management programs. Any cut in this program will have a devastating effect on these efforts.

Agricultural Stabilization and Conservation Service Programs

In the area of soil and water conservation, the Administration has proposed deep cuts in the Agricultural Stabilization and Conservation Service (ASCS) program. The Navajo Nation is in great need of soil and water conservation and has utilized the ASCS program to maximize its efforts.

The BIA's agriculture and range program has been reduced over the past several years and the Navajo Nation has recently begun to utilize the ASCS program effectively.

With the Navajo Nation providing cost-sharing on most of the projects, many individual Navajo farmers and ranchers have been able to realize the benefits of the ASCS programs. Not only have many conservation practices been implemented, but desperately needed employment has been generated.

As a Nation, we treasure our resources. Our soils and water are the basis of our drive for economic self-sufficiency and our intentions are to conserve as much as we can. Our objectives include efforts to reduce soil erosion to livable limits; i.e., reduce severely eroding areas (25 tons/acre/year) by at least 80 percent to 5 tons/acre/year. These goals are attainable only with the continued assistance of the ASCS program. The Navajo Nation simply lacks the fiscal resources to address these problems alone. We need federal assistance.

Common sense reveals that as soil and water resources continue to be lost, the costs of substituting or replacing them rises. Preventive action through the ASCS programs is the only sensible option.

The Navajo Nation has on the average invested upwards of $200,000 annually for match-funding the ACSC programs on the reservation over the past three years. This was done on behalf of the individual landusers who see the need for conservation measures but who can not afford it.

At this time, there is a growing backlog of requests for assistance. We estimate that at least $875,000 is needed to reduce this backlog and there is another $1,000,000+ of unmet needs. Water line extension, stock tanks, check dams, rock and brush dams and reseeding are among the needs which must be addressed.

Mr. Chairman, it may well be the case that the program offered by the SCS and the ASCS are no longer needed in much of rural America. But this is certainly not the case in the Navajo Nation. These programs are vital to the present and future well-being of the Navajo Nation.

We thank you for this opportunity to present our views.

STATEMENT OF DWIGHT SPULLER, CHAIRMAN, NORTHWEST MICHIGAN RC&D COUNCIL

Thank you, Mr. Chairman, I am Dwight Spuller, Chairman of the Northwest Michigan RC & D Council, Chairman of the Seven State North Central Region RC & D Council and representing Michigan's Four RC & D Councils.

The lack of concern for our natural resources and for the well being of rural America as expressed by the administrations proposed budget for natural resource programs is very hard to understand. We who have worked with the RC & D program for these many years have seen and experienced the importance of the wise use of natural resources and the economic contribution they make to our nation. Neglecting the care of these resources would be disastrous, not only for our nation but for the entire world.

The RC & D program has, in many instances, aided in the economic well being of rural areas by providing sources of employment for those who have needed supplemental income to maintain the income necessary to sustain an acceptable standard of living. The maintainance and proper management of our natural resources has played a major part in making this possible. RC & D is looked upon as the tool to make this possible.

During the past year we have conducted a survey of the value of the volunteer time put in the operation of our RC & D councils in Michigan. We found that the contribution of these people have, and continue to contribute their time and finances to the amount of over $175,000.00 per year. The reason for this is their interest in making their communities better places to live and work by the proper use of natural resources.

While some of our projects are completed with the use of Federal funds, we know that an equal or greater amount is contributed by the use of funds from local township, village, city and state governments and agencies. These associated measures emphasize the importance of the RC & D program to our local communities. This is a program for both people and communities.

We are deeply concerned with the attempt to phase out RC & D areas. Our experience has proven to us, that the RC & D program has been the most successful rural development program devised, to date. The fact that is is a program completely under local direction, that all proposals originate locally by representatives of both private and public interests, that they are projects that reflect the needs for protection and orderly development of our natural resources, that the benefits derived from projects is so visible and the local people are so enthusiastic in their support of this program makes it preposterous to think that any government should want to discontinue it.

SCS has done a remarkable job of coordinating the work in RC & D, particularly in developing local leadership, getting all units of government to work together for a common cause, preparing projects for completion and obtaining financial support for projects.

One of the more important aspects of the RC & D program has been its ability to draw together the people of the community, representing both public agencies and private interests, working for a common interest that will improve the quality of life as well as protecting and improving our natural resources. In fifteen years of association with RC & D, I have never seen any expression of envy because one area or community was receiving more financial benefit than another.

While we realize that a continuation of the present appropriation of 26 million dollars will leave us with only a skeleton program we are willing to take what will amount to about a 4 percent decrease in funding in the hope that better judgement of the administration in the future will continue the program.

We thank you for your interest and consideration. We hope your committee will continue your support and help keep this program in operation.

Letter From Peter V. Jackson, III, Executive Vice President, Society for Range Management

April 10, 1985

The Honorable Thad Cochran
Chairman, Subcommittee on Agriculture, Rural
Development, and Related Agencies
United States Senate
Senate Russell Building, 326
Washington, DC 20510

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to file a statement on the important research and extension titles of the proposed 1985 Agricultural Adjustment Act. This statement represents the views of not only the Society for Range Mangement (SRM), but has the approval of the International Association of Fish and Wildlife Agencies (IAFWA).

The members of our two organizations are interested in the public and private rangelands, as well as other natural resources for the U.S., and their total capabilities for supplying renewable resources of all kinds. The interest of our members includes rangeland and related research, along with research in other natural resource areas. Our members are also vitally interested in the federal, state and local Extension Programs' which we will discuss later in this statement.

As you know, rangelands of the United States comprise over 40 percent, approximately 800 million acres, of the total land area. These rangelands provide a wealth of natural resource products and values from which millions of people derive use and benefit. The abundance of natural resources found on our rangelands and forest lands, including wildlife resources and the opportunity for harvest, are a significant national treasure which demand wise and thoughtful stewardship in perpetuity.

SRM is a professional organization of nearly 5,500 members, international in scope, representing individuals and groups with a common interest in the study, management, and rational use of public and private rangelands and related ecosystems. Its headquarters are in Denver, Colorado. SRM membership consists of ranchers, wildlife biologists, hydrologists, range conservationists, students, teachers, businessmen and others; and, as you can see, provides the Society with expertise in all rangeland sciences and in coordinated resource planning and management. The diversity of SRM membership interests reflect the wealth and variety of rangeland values and the need for support of sustained multiple-use of these resources.

SRM is aware of the large U.S. deficit and the attempts to reduce it. Our members support these efforts. However, as professionals in range and related fields, our members strongly support continued and effective resource management as well. Under proper management and intensified efforts, these lands could increase their contributions and our members strongly support professional programs or efforts that will yield more than is now being realized, especially since the potential is so large.

Research

Specifically, IAFWA and SRM urge the addition of Title M from the 1981 Farm Bill (copy attached) to the proposed 1985 Agricultural Adjustment Act. Briefly, this proposal authorizes $10 million for cooperative rangeland research on a federal-state matching basis, with approved universities having acceptable range and related research capabilities. There is a considerable backlog of urgent, high priority range research needs. In the current budget, the Congress appropriated $500,000 to start this important cooperative research program and the Cooperative State Research Service is now working for a start on the program. SRM and IAFWA strongly recommend to the appropriation committees that this program be continued in the fiscal year 1986.

Extension

Both IAFWA and SRM members have worked closely with the Extension Service at the federal, state and local jurisdictions. This is a successful and important program. It is even more so during these times of economic distress in our rural areas. The IAFWA and SRM strongly recommend the extension program be continued and strenthened where needed. In addition, we urge a fully cooperative program, but with strong financing and full coordination at the federal level.

Also, we wish to call attention to the Renewable Resources Extension Act (RREA). In 1978, the IAFWA and SRM supported RREA. To date, no funds have been proposed in

Administration budgets. The Congress, in recent years, has added $2 million and, in fiscal year 1985, increased this to $2.5 million. This is only a small part of the $15 million authorization and may be inadequate to do the renewable resources extension job.

Although your committee is not responsible for appropriations, IAFWA and SRM strongly recommend that this program be recognized in the coordination of the full extension program. There is much modern and new natural resource technology available that should be transferred for use on the ground by resource managers. Greater extension efforts will not only improve our natural resources, but will increase employment and benefit the total national, state and local economy.

Quite simply, natural resource goals cannot be met without an expanded extension education program.

We will appreciate your consideration of the above suggestions.

Sincerely,

Peter V Jackson III

Peter V. Jackson, III
Executive Vice President

"Subtitle M—Rangeland Research

"Purpose

"Sec. 1478. It is the purpose of this subtitle to promote the general welfare through improved productivity of the Nation's rangelands, which comprise 60 per centum of the land area of the United States. Most of these rangelands are unsuited for cultivation, but produce a great volume of forage that is inedible by humans but readily converted, through an energy efficient process, to high quality food protein by grazing animals. These native grazing lands are located throughout the United States and are important resources for major segments of the Nation's livestock industry. In addition to the many livestock producers directly dependent on rangelands, other segments of agriculture are indirectly dependent on range-fed livestock and on range-produced forage that can be substituted for grain in times of grain scarcity. Recent resource assessments indicate that forage production of rangeland can be increased at least 100 per centum through development and application of improved range management practices while simultaneously enhancing wildlife, watershed, recreational, and aesthetic values and reducing hazards of erosion and flooding.

"Rangeland Research Program

"Sec. 1479. The Secretary may develop and implement a cooperative rangeland research program in coordination with the program carried out under the Renewable Resources Extension Act of 1978 to improve the production and quality of desirable native forages or introduced forages which are managed in a similar manner to native forages for livestock and wildlife. The program shall incude studies of: (1) management of rangelands and agricultural land as integrated systems for more efficient utilization of crops and waste products in the production of food and fiber; (2) methods of managing rangeland watersheds to maximize efficient use of water and improve water yield, water quality, and water conservation, to protect against onsite and offsite damage of rangeland resources from floods, erosion, and other detrimental influences, and to remedy unsatisfactory and unstable rangeland conditions; (3) revegetation and rehabilitation of rangelands including the control of undesirable species of plants; and (4) such other matters as the Secretary considers appropriate.

"Rangeland Research Grants

"Sec. 1480. The Secretary may make grants to land-grant colleges and universities, State agricultural experiment stations, and to colleges, universities, and Federal laboratories having a demonstrable capacity in rangeland research, as determined by the Secretary, to carry out rangeland research. Except in the case of Federal laboratories, this grant program shall be based on a matching formula of 50 per centum Federal and 50 per centum non-Federal funding.

"Reports

"Sec. 1481. Not later than one year after enactment of this subti-

tle, and not later than March 1 of each successive year, the Secretary shall submit a report to the President, the House Committee on Agriculture, the House Committee on Appropriations, the Senate Committee on Agriculture, Nutrition, and Forestry, and the Senate Committee on Appropriations, outlining the progress of the Department of Agriculture in meeting the program requirements set forth in section 1479 of this subtitle.

"Rangeland Research Advisory Board

"Sec. 1482. (a) The Secretary shall establish a board to be known as the Rangeland Research Advisory Board which shall have a term that expires September 30, 1985, and which shall be composed of the following twelve members appointed by the Secretary:

"(1) four representatives of agencies of the Department of Agriculture which have significant research, extension, or teaching responsibilities;

"(2) four representatives of the State agricultural experiment stations; and

"(3) four representatives of national rangeland and range livestock organizations.

The members shall serve without compensation, if not otherwise officers or employees of the United States, except that they shall, while away from their homes or regular places of business in the performance of services for the Board, be allowed travel expenses, including per diem in lieu of subsistence, in the same manner as persons employed intermittently in the Government service are allowed expenses under sections 5701 through 5707 of title 5, United States Code.

"(b) The Board shall meet at the call of the Secretary, but at least once annually, to consult with and advise the Secretary with respect to the implementation of this subtitle and to recommend priorities for the conduct of programs authorized under this subtitle, under such rules and procedures for conducting business as the Secretary shall prescribe.

"Appropriations

"Sec. 1483. (a) There are authorized to be appropriated, to implement the provisions of this subtitle, such sums not to exceed $10,000,000 annually for the period beginning October 1, 1981, and ending September 30, 1985, and thereafter such sums as may after the date of enactment of this subtitle be authorized by law for any subsequent fiscal year.

"(b) Funds appropriated under this section shall be allocated by the Secretary to eligible institutions for work to be done as mutually agreed upon between the Secretary and the eligible institution or institutions. The Secretary shall, whenever possible, consult with the Board in developing plans for the use of these funds.".

(b) The table of contents of the Food and Agriculture Act of 1977 is amended by adding at the end of title XIV the following new items:

STATEMENT OF B. JACK WARREN, EXECUTIVE VICE PRESIDENT, FOREST FARMERS ASSOCIATION

Mr. Chairman, my name is B. Jack Warren and I am executive vice president of Forest Farmers Association, which is headquartered in Atlanta, Georgia. Forest Farmers Association is an organization of private timberland owners in 15 southern states.

My statement will be directed toward the President's budget request for 1986 appropriations affecting forestry programs in the Department of Agriculture. We strongly support the President's efforts to balance the federal budget, and recognize that funding for all activities and programs must be carefully scrutinized and evaluated. We do urge, however, that reductions be made on a priority basis with essential and most highly cost-effective forestry programs maintained at least at basic minimum levels. Our nation's forest development is vital to its long-range economic health, and certain programs such as extension forestry, conservation programs, and research should be administered on a continuing basis.

Our association recommends the following:

	Actual FY '85	Budget FY '86	Recommendation FY '86
	----------------	Millions	----------------
Research			
Hatch Act	$156.5	$156.5	$156.5
McIntire-Stennis Act	13.1	13.1	13.1
Extension			
Renewable Resources Extension Act	2.5	-0-	2.5
Conservation Programs			
Agricultural Conservation Program	190.0	-0-	190.0
Forestry Incentives Program	12.5	-0-	12.5
Soil Conservation Service	609.5	452.7	609.5

Reserach

This committee has always recognized in the past the need for research to maintain the agricultural and forestry components of our economy and to realize that research must be maintained as a long-term process to be effective. We would like to see the funding for the Hatch Act and McIntire-Stennis retained at least at the FY 1985 level. The effects of inflation will in essence reduce these programs.

If, however, any additional funds are appropriated, they should be allocated through an institutional competitive grants program with accompanying peer review. This approach would result in better quality and meaningful research as opposed to designated project grants.

Extension

The Renewable Resources Extension Act was passed in 1978 but was not funded until 1983. The appropriation was set at $2.5 million for FY 1985 when the authorization was $15 million. The President's budget advocates no funding for FY 1986, but we urge your consideration of funding at the same level as 1985 or $2.5 million. This new program has met with much success in the few years it has been in existence. We support this legislation, which affects all of our members, to be funded at a high enough level to function adequately to extend needed technology to all forest landowners since our demand for wood will double in 20 years.

Conservation Programs

The Agricultural Conservation Program, which was funded at $190 million in FY 1985, is not included in proposed funding for FY 1986. We recommend that the funding level be at least the FY 1985 level so that the Rural Community Fire Protection program, which provides funds to state foresters to organize, train and equip rural fire departments, will be funded.

We are very concerned about the elimination of the Forestry Incentives Program (FIP) in the President's budget. This program has met with much success. It has demonstrated its effectiveness in regenerating cutover lands, which favorably influence future productivity of these lands. This, in turn, stimulates the economy. The Forestry Incentives Program targets regeneration of the best quality forest land and, according to a U. S. Forest Service assessment, for every $100 of public monies spent to regenerate southern pines, society will benefit from a $3,800 reduction in the total price of wood products it consumes in the year 2020. Therefore, we feel that funding should remain at the FY 1985 level of $12.5 million.

Our association also urges maintaining funds for the Soil Conservation Service at least at the FY 1985 level. This agency is vital to the future productivity of private farmlands; otherwise severe problems face the farmers of the United States. We would not be the agricultural nation we are today if it had not been for the outstanding accomplishments of the Soil Conservation Service.

Over the years your committee has demonstrated a deep understanding and support for adequate federal programs affecting the timberland owner and farmer. We are confident that you and your committee will make the right decisions in order to keep our nation the leader in forestry. Thank you for the opportunity to present these views.

STATEMENT OF DONALD J. SCHRICKEL, LEGISLATIVE DIRECTOR, THE MILLING OATS IMPROVEMENT ASSOCIATION

My name is Donald J. Schrickel and I am employed by The Quaker Oats Co. as Director of Grain Research and Development. My testimony before this Committee represents the views of the Milling Oats Improvement Association. The Association is made up of oats producers, seed growers, oats breeders, oats handlers and processors. Our Association is interested in supporting the research of oats in order to provide improved varieties which will make oats a more profitable crop for producers, as well as providing a nutritious grain for animal feed and human food.

Oats are one of the few grains that are not in oversupply today in the United States. It is a crop that has a loan and target price in the current legislation but has not contributed to the costs of the U. S. Dept. of Agriculture nor the taxpayer because oats have been selling above loan and target prices. The intentions for planting oats this year are up slightly because there is no surplus, and also because planting costs are less than those of corn, soybeans and similar crops. Our Association believes that oats should be included among the other feed grains for price supports and target prices in the proposed new farm bill. As currently proposed, oats are not included and we would like to see this changed.

We are pleased that oats are receiving the support of your Committee with other grains in the National Germplasm System. We believe the Agricultural Research Service of the U.S. Dept. of Agriculture is making excellent progress in evaluating oats germplasm as well as that of other small grains. A delegation of Milling Oats Improvement Association members recently witnessed a demonstration of the USDA computerized system known as "GRIN". This allows plant breeders to access the Germplasm system and select entries for their breeding programs. The Milling Oats Improvement Association supports the funding provided in the A.R.S. budget for fiscal year 1986 for the National Germplasm System. We encourage the subcommittee to continue its strong support of an adequate germplasm system which will benefit future generations.

Finally, we are fully aware that Federal capital expenditures are under a great deal of pressure and that neither the Administration nor this panel can justify rebuilding USDA's physical plant. However, for the record, we would like to state that the Small Grains Collection located at Beltsville, Maryland needs a new facility. Temporary improvements for storage have been made, but total handling and storage facilities are inadequate. We support funding of a new facility for the Small Grains Collection.

Thank you.

D. J. Schrickel
Legislative Director
The Milling Oats Improvement
Association

STATEMENT OF H. VICTOR JOACHIM, PRESIDENT, NATIONAL DAIRY HERD IMPROVEMENT ASSOCIATION, INC.

SUMMARY

I am H. Victor Joachim, President of National Dairy Herd Improvement Association, Inc., which represents 64,000 dairy farmers enrolled in the National Cooperative Dairy Herd Improvement Program.

National Dairy Herd Improvement Association believes it is in the best interest of dairy farmers, taxpayers, and government to continue support for dairy product research and dairy production efficiency research. For several years National DHIA, the dairy industry, and the Forum for Animal Agriculture have urged "product research and distribution efficiency" as the highest priority dairy research. The dairy industry needs to expand its markets by developing new products, improving its efficiency in distributing products, and abandoning the obsolete marketing practices which encourage the production of water and butterfat.

On the other hand, production efficiency should not be permitted to stagnate by abandoning production efficiency research. Eventually, dairy farmers in the United States need to become so efficient they can compete in the world market.

We ask your consideration of the following efforts which contribute to the efficiency of the dairy industry:

(a) Funding for dairy product research and processing/distribution efficiency;

(b) Policies which encourage expansion of dairy product markets, including higher minimum standards and component pricing;

(c) Continued support for research which leads to improved production efficiencies, including research efforts in mastitis control, reproduction problems, and genetic improvement.

STATEMENT

I am H. Victor Joachim, Corona, South Dakota. I farm 600 acres of land at Milbank, South Dakota. My family and I milk 100 grade and registered Holsteins with a total herd of 175. We also operate a 700-head cattle feeding operation. Dairy herd improvement, artificial insemination, milk marketing, and dairy breed organizations all contribute to the success of my dairy farm operation. The U.S. Department of Agriculture cooperates with these organizations by providing research and educational programs which ultimately improve our dairy herd and farm operation. These programs are extremely important. We appreciate the support of the Department.

I am President of National Dairy Herd Improvement Association, Inc., (National DHIA), which represents 64,000 dairy farmers enrolled in the National Cooperative Dairy Herd Improvement Program (NCDHIP). The NCDHIP provides computerized dairy farm management data; the program is the basis for national genetic evaluations; it provides information for sound artificial insemination and breed improvement programs. It is the basis for many research and education programs.

Dairy farmers in National Dairy Herd Improvement Association continue to appreciate the support of Congress and the Administration for research in dairy and livestock production and marketing. In recent years, dairy farmers have come to understand and have come to grips with the need to match consumption with production. In 1984, some encouraging steps were taken. Even so, continued research in product research/processing-distribution and production efficiency is as important as ever, maybe more so.

For several years, National DHIA has urged re-direction of funding to support dairy product research to improve per capita consumption of dairy products. In addition, the dairy industry and the Forum for Animal Agriculture (an alliance of 24 livestock organizations representing dairy, beef, swine, sheep, horses, poultry, dairy goats and small meat animals) have been on record supporting "product research and distribution efficiency" as the highest priority research. In the long run, government expenditure for research to expand markets is much more rational than purchase of surplus products.

The next generation of dairy farmers has to be as successful in marketing as this generation has been in production efficiency.

On the other hand, production efficiency research should not be abandoned. Even with improvements in marketing efficiency, dairy farmers must continue to improve production efficiency. Eventually, dairy farmers in the United States need to become so efficient they can compete in the world market.

The dairy industry needs to expand markets by developing new products, improving its efficiency in distributing products, and abandoning the obsolete marketing practices which encourage the production of water and butterfat to the exclusion of quality pricing and sales (with emphasis on protein and total components). At the same time, an efficient production system should be encouraged to be even more efficient, because, to not do so, is to stagnate!

We believe Congress and the U.S. Department of Agriculture can justify supporting increased research efforts in both product and production research. We ask your consideration of the following efforts which contribute to the efficiency of the dairy industry:

(a) Funding for dairy product research and processing/distribution efficiency;

(b) Support policies which encourage expansion of dairy product markets, including higher minimum standards and component pricing;

(c) Continued support for research which leads to improved production efficiencies, including research efforts in mastitis control, reproduction problems, and genetic improvement.

PRODUCT RESEARCH

Even though per capita consumption of dairy products increased 2% in the past year, milk continues to lose ground to soft drinks. With merchandising expenditures 20-30 times those of the dairy industry, soft drinks nutritionally offer only calories, while milk offers calcium and many other important nutrients. Nutritionally, children especially are losing out, developing life-long habits (perhaps even addiction) to soft drinks.

Thus, dairy product research can be as important to long-range health of consumers as it is to the well-being of dairy farmers. Consumers also benefit from processing and distribution efficiency research as efficiencies developed are passed on to consumers as reasonable dairy products cost.

National DHIA continues to support "protein or component pricing — as a marketing system which emphasizes quality and product salability." When the marketing system is changed, even greater research is needed to ensure milk quality uniformity so consumers are assured consistent and high quality products. These steps are necessary if per capita consumption will continue to rise.

Quality of products and new/different products (such as those which compete head-on with soft drinks) contribute to expanding markets, which, in turn, reduce surplus. Even though government-supported research in these areas may not appear to be justified, research is a more rational expenditure than paying for storage of surplus.

Efficiency of processing and distribution also contributes to the benefit of consumers by improving quality and reducing cost. Many projects are needed to effect break-throughs. Studies to determine how to "concentrate" milk (reduce the water content) at the farm level are essential to cut down transportation costs. In addition, ultrapasteurization and aseptic packaging technology should be developed so dairy products can compete with other foods which remain safely on grocery shelves up to six months without deterioration.

Following is a complete listing of high priority dairy product research projects:

1. Milk Quality Uniformity

   Research is needed to establish a milk dating system, to make possible determination of the speed and magnitude of off-flavor development.

2. Concentration of Milk at the Farm Level

   Research is needed to establish potential benefits for concentrating milk prior to shipment from the farm, to reduce transportation energy usage.

3. **Concentration of Whey at its Place of Origin**

   Energy savings are possible through new processing techniques, including freeze concentration technology for dairy products; research is essential.

4. **Ultrapasteurization and Aseptic Packaging of Milk and Dairy Products**

   Research is needed to speed the development of ultra-high temperature sterilization of milk to reduce energy costs and improve shelf life of milk and milk products; study is essential to learn how to inactivate heat-resistant lipases, to establish optimum equipment and methods for ultra-high temperature processing, and to develop methods for predicting consumer acceptance of UHT dairy products.

5. **Whey Utilization for Food and Non-Food**

   Whey and its chemical constituents currently are under-utilized, creating pollution problems upon disposal; research is needed to improve processing techniques of whey, to develop new procedures for conversion of lactose to lactulose, and to explore potential use of lactose as a constituent of urethane polymers; for development of new dairy products, continuing exploration of membrane technology is required.

6. **Ultrafiltration of Milk for Yield Improvement in Cheese Manufacture**

   Continued research is necessary for economic improvement in cheese yields, while maintaining satisfactory cheese quality by use of pH controlled lactic culture concentrates.

7. **Milkfat Utilization**

   New research is essential to develop spreadability of butter; information is needed on milkfat composition in relation to cheese flavor and texture.

8. **New and Improved Methods of Analysis of Milk Components for Quality or Deterioration**

   New research is needed to develop testing methods to identify efficiently antibiotics (other than penicillin), because of potential allergic reactions and cheese production failures; studies of production factors, contamination of dairy products, and deactivation involved in the presence of aflatoxin in milk are necessary; as protein has gained significance in marketing dairy products, additional research in identification and quantification of protein by means of gas chromatography and infra-red spectroscopy is warranted.

9. **Genetic Engineering as a Tool to Improve Dairy Products**

   Encouraging research on Streptococcus Cremoris Plasmid DNA has demonstrated genetic engineering techniques make possible superior cultured dairy products; continued development is needed in this "frontier" research.

In recent years, U. S. Department of Agriculture research on dairy products has been nearly eliminated. Research on dairy products is extremely important as industry and government attempt to deal rationally with surplus, and attempt to create a new system and atmosphere for milk marketing in which quality and uniformity are emphasized' A real need is for government to establish funds to change the direction of marketing of dairy products in United States. We hope funds can be made available to initiate an effective research effort on dairy products.

PRODUCTION EFFICIENCY RESEARCH

During the past year, a panel in Ohio talked before university dairy scientists about the future of the dairy industry. The four panelists represented various facets of the industry — and all four said the dairy industry's biggest challenge is in merchandising dairy's product. One said, "the next generation has to be as successful in marketing as this generation has been in production efficiency." This really wasn't what dairy production professors wanted to hear.

Panelists came across so strongly faculty members wondered if production efficiency was being left behind. The farmer on the panel asnwered that "Dairy farmers in the United States need to become so efficient they can compete in the world market."

Although production efficiency of the dairy industry far surpasses its marketing efficiency, efforts to improve efficiency at the farm level dare not relax! The long "lead-time" from research initiation to farm adoption of new techniques means the American economy must continue to develop new and better technology. Consumers are the ultimate beneficiaries. Dairy farmers believe Congress has a responsibility to continue to encourage maximum productive efficiency for the health of the dairy industry and the American economy.

Mastitis Research

Dairy farmers believe mastitis is the primary disease problem of dairy cattle (cost $1 billion annually). National Mastitis Council now treats mastitis as "one dimension in the concept of a total quality milk program." As an example, mastitis changes the composition of milk and lowers quality; particularly affected is protein, reducing cheese yields from mastitic milk. In addition, consumers have a right to expect quality milk to be non-infected, even though human health is not threatened. So there is now evidence mastitis needs continuing research attention as it affects both merchandising dairy products (milk quality) and production efficiency (mastitis significantly lowers milk production).

Some believe mastitis control is merely an application of current knowledge, but dairy farmers believe only a small part of needed research has been completed. As herd size increases and mechanization/automation takes place, research and information are more essential than ever. As an example, DHIA dairy farmers pay for monthly mastitis detection on 3 million cows. Follow-up research and communication are essential to supplement the detection system.

The following mastitis research needs were developed by the National Mastitis Council:

1. Milking Equipment and Mastitis

   There are few reliable data defining characteristics of milking machines that influence incidence and severity of mastitis.

2. The Dry Period and Mastitis

   New methods of treatment and prophylaxis in the dry period are needed.

3. Specific Immunity and Immunization

   There is need for study of the mechanisms of immunity and potential effective vaccines.

4. Non-Specific Resistance

   Resistance research areas include integrity of the teat canal barrier to infection, phagocitosis in the mammary gland and various antibacterial factors in milk and dry period secretions.

5. Integrated Mastitis Control Program

   Development of integrated mastitis control systems requires validation of management practices which minimize the incidence of clinical mastitis, the level of subclinical infection and production loss.

Reproduction Research

Dairy farmers consistently rate the need for reproduction research second only to mastitis. A 1982 Dairy Magazine survey revealed that 70% of farmers consider reproduction to be a significant problem. Farmers rate reproduction research priorities in this order:

1. Estrus detection
2. Retained placenta
3. Cystic ovaries
4. Abortion-embryonic death

Other needs for reproduction research are:

(a) Reproductive disease (brucellosis, leptospirosis, vibriosis, low-grade infection, etc.).

(b) Semen processing and storage.

(c) Environmental effects on reproduction (such as ambient temperature) and methods to minimize these effects.

Although there are continuing needs for reproduction research, National DHIA is grateful for the response of the U. S. Department of Agriculture and the scientific community in developing the national project Integrated Reproduction Management. Objective of the "integrated" concept is to tie together all of the facets of research, extension and information dissemination, so that farmers have available a package which solves problems at the farm level. Producers applaud the concept and appreciate the steps taken at many levels to bring the concept to practical reality.

We encourage continued development.

Genetic Research

National DHIA appreciates the support of Congress and the U. S. Department of Agriculture in maintaining dairy research at the Animal Improvement Program Laboratory. Resulting dairy cattle sire and cow evaluations have contributed significantly to production efficiency progress in dairy. To ensure continued genetic improvement, DHIA dairy farmers encourage the continuation of this important research.

SUMMARY OF RESEARCH PRIORITIES

1. Dairy Product Research/Processing-Distribution Efficiency
2. Mastitis Research
3. Reproduction Research
4. Genetic Research.

STATEMENT OF THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS

Mr. Chairman, the National Association of Towns and Townships appreciates the opportunity to submit a statement for the record before your subcommittee. Our association represents over 13,000 towns, townships and rural governments nationwide. Our purpose is to strengthen small, rural governments and promote their interests in the public and private sectors.

The purpose of our statement, Mr. Chairman, is to address the changes facing farmers and rural communities, to recommend a role for rural governments in helping their communities adapt to change, and to urge the federal government to take action to help rural towns help themselves. The National Association of Towns and Townships believes strongly that the federal government must make some financial and management commitment to rural development needs.

BONDS BETWEEN RURAL GOVERNMENTS AND FARM COMMUNITY: A STRONG BOND

The bond between rural governments and the farm community is a strong one. Without financially healthy farms, rural government cannot thrive. Without township government to serve their needs, farmers cannot operate their businesses. Throughout the country, many of NATaT's members are farmers or members of the farm community who serve township government for little or no pay. Unfortunately, Mr. Chairman, not enough emphasis is placed on the health and vitality of the rural community as a whole. Federal policies, in particular, tend to isolate the concerns of a single sector of the society and address those concerns in a vacumn.

For example, Mr. Chairman, in rural communities the government maintains, builds and repairs all farm-to-market roads. The government may also be involved in agricultural land preservation activities, monitoring groundwater, or promoting business development of potential benefit to local farmers.

Unfortunately, the inability of all sectors concerned to acknowledge the interdependency of financial, agricultural, and governmental policies has created the "farm crisis" that grows larger with each passing year. We place quotes around the term "farm crisis," Mr. Chairman, because the crisis in our view is really much broader and deeper in scope -- just as the rural economy is much broader and deeper than the farm sector. Consequently, to address the farm crisis the U.S. Congress needs to acknowledge the changing nature of rural America now.

CHANGES IN RURAL AMERICA

Governor Bond of Missouri summarized well a few trends in a paper presented at an international rural development conference sponsored by the U.S. Department of Agriculture in 1984. His paper stated that since the 1960's:

(1) Americans have been moving into rural areas at a significant rate, straining existing infrastructure and levels of service.

(2) The rural economy has diversified and built elaborate links to national and international economies.

(3) The agricultural sector has diminished substantially. Within agriculture, a small number of large farms dominate agricultural production and profits while a growing number of small farms rely heavily on off-farm income for survival.

Concerning the latter point, Governor Bond observed that in 1970, the total rural U.S. population was 50 million and the farm population was 32 million. By contrast, while 60 million people lived in rural areas in 1982, only 6.3 million lived on farms.

Mr. Chairman, the three trends pointed out by Governor Bond show a diverse rural economy where many farmers support their farm by working elsewhere. The same conclusions are reached by the U.S. Department of Agriculture in its 1984 rural development strategy. The report's statistics illustrate that farmers making

$40,000 or less are very dependent on wage-earning work off the farm. Part-time farming is not in the transitional stage. As 70 percent of all farms make less than $40,000 annually, it is a permanent part of the rural economy. USDA's strategy states, however, that farms with an annual income of $40,000 - $100,000 may be extinct before the end of the decade as the demands of daily farm operations grow increasingly incompatible with the demands for substantial outside income.

The National Farmer's Union 1984 report painted an even bleaker picture, pointing out that many farms will go under unless immediate action is taken. According to the Union's report, called *Depression in Rural America,* farmers are being forced to leave the occupation of their choice to look for work in rural communities--work that oftentimes does not exist. The report states that "farmers looking for jobs in town find none." Governor Bond verifies the findings of the National Farmers Union in his description of rural areas in Missouri crippled economically. Such depressed areas are characterized by population shrinkage, narrow employment opportunities, foreclosed fa[illegible] and a decline in government tax revenues and transfer payments, and rail abandonments. *Once these trends are set in motion, economic vitality cannot be restored without substantial state and federal support.*

The problems facing farmers hit rural governments hard, too. The National Association of Towns and Townships focuses on government needs, Mr. Chairman, but the future vitality of our nation's farms is tied inextricably to healthy rural governments. In addition to the financial crisis facing farm communities, trends that may prove important to creating policies that will help farm and other rural communities include: (1) the shrinking size of households and families, (2) the shift to two-income families, and (3) the increase in the aging population. These trends, in addition to financial problems plaguing the rural economy, will have an impact on the economic structure and tax base in rural areas.

THE CHALLENGES AHEAD

Rural governments face tough challenges in the years ahead in order to survive. Rural government officials, many of whom are farmers, cherish the contribution that a strong agricultural base can make to the rural economy. A strong agricultural base is only one part of the rural economy, however. Rural governments and the farm community need to work together to build a strong, broad-based coalition. If we do so, we will represent nearly 35 percent of the population. Cohesive, permanent rural development is needed to keep the agricultural economy from declining just as it is needed to absorb the new demands placed on rural governments that are changing.

This need will increase as more and more responsibilities are returned to local governments, Mr. Chairman. Unfortunately, the vast majority of federal programs or policies either do not assist rural communities or fail to acknowledge the community as a whole. For example, federal farm policy tends in too many cases to benefit the overall U.S. agricultural economy to the exclusion of the economic vitality of individual communities. Healthy local economies are those that are diverse enough to withstand a certain amount of loss. Unfortunately, our farm communities are not encouraged through federal policy to build in such safeguards.

Similarly, the Administration now wants to eliminate funding for the general revenue program with little, if any, regard for the impact that eliminating this and other federal rural programs will have on farm communities. An elected official, who is also a farmer of NATaT, stressed that one of the ways the federal government could be most helpful to him as a farmer would be to retain the GRS program--otherwise his property taxes will rise significantly. In our view, Mr. Chairman, unless the federal government begins to acknowledge and address such relationships in the rural economy, the federal government will continue to be faced with the problems of a struggling farm community and rural economy.

NEEDED: MANAGEMENT HELP FOR RURAL GOVERNMENTS

Mr. Chairman, your subcommittee will address many important issues in the 1985 farm bill. On behalf of towns, townships, and rural governments nationwide, we urge your subcommittee to recognize the strong relationship between rural governments and the farm community and acknowledge the important role that rural governments have in promoting a strong rural economy.

The National Association of Towns and Townships has stressed this need since its beginning. In response, Congress passed the Rural Development Act in 1972 and reauthorized it in 1980. The law established a technical assistance program for rural governments, giving the Secretary of Agriculture the authority to spend up to 15 million dollars annually to provide technical assistance, leadership development, and areawide planning grants to rural governments. The most that has ever been appropriated for the program, however, is 5 million dollars. Since 1981, no money has been spent on the program.

Mr. Chairman, the National Association of Towns and Townships believes that a program similar to the one authorized in the Rural Development Policy Act of 1980 should be included in the 1985 farm bill and funded at 10 to 15 million dollars annually. The program should be established so that rural governments receive the funds. It should be changed from the one established in the Rural Development Policy Act, however, to provide funds for more than one year. Unfortunately, not much good will come if funds are available for one year only. At the end of one year, for example, a rural government official will just begin to see the positive effects of having a part-time professional town manager to help solve financial problems. Better benefits would be realized if rural governments could apply for funding for several years and then take over the responsibility for funding the service. Multi-year funding would give the community time to see the benefits and find a way, along or with other governments, to pay for the service.

Rural governments need on-site, personalized technical assistance to help them manage better and address problems constructively. Most township government officials serve part-time for no pay. If a township official is a farmer, for example, this means that many months of the year are spent farming. A part-time circuit rider town manager, shared among several townships, would help the officials involved to manage both their governments and their farms better.

Rural governments need to build their institutional authority--a difficult task if the government is staffed by one part-time elected official. Technical assistance grants would enable rural officials to obtain an expert to help their governments, for example, manage farm-to-market programs, promote farm-related businesses such as seed companies or implement repair business, create a local plan for agricultural land preservation, improve financial opportunities for farmers, or provide educational programs. Rural governments could secure the training needed to find ways to attract small businesses into town and improve job opportunities for their citizens. Rural governments might improve land use and zoning practices by sending rural leaders to school for professional training. The possibilities are as exhaustive as the collective imaginations of people interested in promoting high quality life in rural communities. Most important, Mr. Chairman, the National Association of Towns and Townships is asking for funding to help rural governments expand their management capacity and consequently do a better job of meeting the diverse needs and high stress that currently characterizes the rural environment.

CONCLUSION

Mr. Chairman, this statement has addressed the growing ties between the farm and non-farm community, the changing complexion of rural communities, and the need for strong, capable rural governments to meet the challenges ahead. We would like to add that rural governments can meet the challenges ahead with help and support. It is perhaps easier to understand, when away from Washington, D.C., the important services that volunteer elected officials are capable of performing for their citizens. Rural governments must meet many challenges ahead, but they are anxious to do so by helping themselves. Already, rural citizens dedicate much time to community service. The National Association of Towns and Townships believes that this commitment should be recognized and rewarded. We hope that the members of the subcommittee share our concern and decide to address rural government needs in the 1985 farm bill. Thank you for this opportunity to express our concerns. We look forward to working with you in the months ahead.

STATEMENT OF GERARD KENNY, NATIONAL UTILITY CONTRACTORS ASSOCIATION

Mr. Chairman and members of the Committee, the National Utility Contractors Association (NUCA) is comprised of 2,000 contractors, suppliers and manufacturers nationwide that specialize in water delivery and wastewater treatment construction projects. Many of the water and sewer systems built by our members are financed through the Farmers Home Administration (FmHA) Water & Waste Disposal grant and loan program.

As a result of our work in constructing the facilities funded by this important program, I will take this opportunity to offer the construction industry's views on the program and its effectiveness.

I begin by expressing the industry's staunch opposition to President Reagan's plan to rapidly phase out funding for the Water and Waste Disposal program in fiscal 1986. In our opinion, that would be the end result of the administration's intent to transfer eligibility for federal funding of these water and wastewater treatment projects to the HUD Community Development Block Grant program.

The HUD program provides funding for dozens of state and local programs. It is important to note the White House is also proposing a substantial reduction in federal funding for HUD community development block grants from the current level of $3.9 billion to $3.1 billion in 1986. There can be little doubt that adding new programs to the many already eligible for HUD funding while reducing appropriations for the block grant will certainly result in drastically reduced financing for water and sewer construction in low-income rural communities.

The nation has been alerted over recent years to the impending infrastructure crisis facing all areas of the country. Studies indicate spending for our system of public works must be dramatically increased at all levels of government just to keep pace with current needs. Water delivery and wastewater treatment systems account for a large share of these projected construction needs. A highly respected 1984 study by the Congressional Joint Economic Committee estimates more than $200 billion alone must be spent on these two areas of construction by the year 2000. Similar studies by the Environmental Protection Agency and other groups support these figures.

Sharply Reduced Federal Funding

Despite these acknowledged needs, however, a survey just completed by our association reveals that the Reagan administration's fiscal 1986 budget request for the major federal programs that finance the construction of water delivery and sewage treatment systems represents a staggering 50% reduction from Congressional appropriations for these programs in fiscal 1980. Specifically, the reduction is from $6.63 billion in 1980 to the proposed 1986 total of $3.31 billion included in the President's budget request for these programs. A breakdown of these figures follows:

FEDERAL WATER/WASTEWATER CONSTRUCTION SPENDING

Program	Fiscal 1980 Appropriation	Fiscal 1986 Request	Decrease
Farmers Home Administration (FmHA) Water/Waste Disposal Program (total grants & loans)	$990 million	$75 million	$915 million (92%)
Economic Development Administration (EDA)	$582 million	-0-	$582 million (100%)
Environmental Protection Agency (EPA) Construction Grants	$3.4 billion	$2.4 billion	$1 billion (29%)
Corps of Engineers (civil works program—construction funding only)	$1.66 billion	$842 million	$818 million (49%)
TOTAL	$6.632 billion	$3.317 billion	$3.315 billion (50%)

Have state and local governments picked up the slack? Unfortunately not, as records indicate public construction as a percent of total construction volume is lower now than at anytime since 1947. Sharp drops in the public share of new construction in recent years have lowered the public share to 17.9% in 1984 -- far below the 30% share as recently as 1975. In fact, the total annual expenditure by the federal, state and local governments for public capital investment projects has declined by more than 50% in just the last 15 years.

In addition to cutting back federal appropriations for these programs, impending tax proposals would exacerbate the problem facing rural communities by limiting their ability to finance construction work through their local resources. Restrictions on municipal development bonds and other proposals expected to be an integral part of the coming tax reform debate would further hinder the opportunity for local communities to finance construction.

Perhaps the truest indicator of the continued need for this FmHA program is the number of preapplication and unobligated applications pending as of the first week in April. A total of 1,696 applications for grants and/or loans totaling $921 million are now awaiting action (and funding) at Farmers Home headquarters. A state-by-state breakdown of this list appears at the end of this testimony.

The benefits derived from the Water & Waste Disposal program can generally be classified under the headings of economic development and public health.

Economic Growth & Public Health

Funding for this program must be viewed in budgetary terms not as a liability but as a long-term asset because it represents an investment in the future economic growth of the nation's underdeveloped areas. A sound network of water delivery and sewage treatment facilities is essential to the economic growth of these rural areas. Studies indicate businesses and industries place the condition of an area's sewer and water system near the top of their list of criteria in determining whether to build, expand or relocate.

Perhaps the most alarming statistic estimates that 46% -- nearly one-half -- of the nation's communities are unable to add additional businesses and residences onto their sewage treatment systems because they are already operating at full capacity. It has been the experience of many of our member companies located in rural areas that vitally needed businesses that could provide an infusion of capital and employment opportunities into the local economy locate elsewhere due, at least in part, to inadequate water and sewer facilities.

Adequate funding for this FmHA program is also necessary to meet the needs of the public health. Due to inadequate funding to finance pipeline and treatment construction, many rural communities rely on septic tanks for sewage disposal and underground wells for water. Currently, approximately 60 million Americans are without sewer service. The alternative is largely the use of septic tanks. When operated and maintained properly by owners living on suitable soil, septic tanks can provide a cheap and efficient method of waste disposal. However, studies indicate that at any one time, 20 to 60 percent of the septic tanks in the United States are malfunctioning.

More importantly, malfunctioning tanks are a major source of both groundwater and surface water pollution. The National League of Cities, in previous testimony before Congress, noted that the use of septic tanks can lead to groundwater pollution, local and regional public health problems and contamination of water supplies. One alternative is a soil collector or absorption system. However, for 68% of municipalities with populations of under 10,000, the soil conditions are unsuitable for a soil absorption system.

Water Pollution Control

Over the years, the FmHA Water & Waste Disposal program has also proven to be an important source of financing wastewater treatment construction needs mandated by the federal Clean Water Act. Farmers Home officials report a significant percentage of the program's funding is used to assist poor communities in financing the 45% local share required to receive an EPA grant under the EPA construction grants program. Any reduction in FmHA funding would surely result in a slowdown in our nation's water pollution control battle.

It is also important to know that an increasing percentage of EPA sewer construction funding is now awarded to largely urban communities for treatment plant construction. Only a small percentage is now being used to construct sewer pipeline systems, such as collector pipelines. This policy penalizes small rural communities because costs represent 80% of the total project cost in small municipalities. In high density urban areas, however, pipeline construction accounts for only 15 to 20% of treatment system costs.

As a result, fewer EPA construction grants are going to rural communities. At the same time, however, EPA is stepping up its enforcement policy against all communities and is requiring them -- often by using court orders and other administrative powers -- to build the sewage treatment systems necessary to meet federal water quality standards. In essence, the agency is saying to communities, "You must construct the facilities required to meet water quality standards in your area. How you pay for it is your problem." The FmHA program is often the safety net for these communities with no other available source of construction financing.

Retainage

Before summarizing, I will take this opportunity to mention one potential problem within the program that is a result of recent changes in the regulations governing it. Specifically, the new regulations make an important change in "retainage" provisions on construction contracts. On many publicly-financed projects, the owner will "retain" a percentage of payment due a contractor for work already completed. The theory behind this common practice is that this "retainage" of payments ensures the satisfactory completion of the entire contract, at which time all money is released to the contractor.

In the past, communities were encouraged to retain 10% of the contract price, but they were not required to do so if state or local laws imposed other less stringent requirements. The new regulations, however, specifically require the retainage of 10% of payments due the contractor, with no mention of state or local statutes as a substitute. A number of states have laws dealing with retainage different from the new FmHA requirement. States with a less-than-10% retainage report more competitive bidding on FmHA-financed projects, resulting in less costly construction contracts. If a contractor knows 10% of the payments due to him will be withheld, he adds the price of financing costs necessitated by this retainage provision to the price of his bid.

As you can clearly see, this policy results in more expensive construction contracts on FmHA-financed projects. NUCA supports a policy of permitting FmHA to continue to encourage municipalities to retain an adequate amount of retainage, but federal regulations should not supercede state or local laws in this area. States that have a less-than-10% retainage law report few problems and better prices for their projects. The result enables the American taxpayer to "get more bang for the buck" on federally-financed construction projects such as this FmHA program.

This flexible language is currently part of the regulations governing the EPA construction grants program, and reports indicate it is working well. We are now working with FmHA officials in trying to administratively remedy this issue. If a satisfactory resolution is not reached, however, we will seek the committee's assistance in resolving it statutorily.

Summary

Mr. Chairman and members of the committee, I conclude by imploring you to appropriate an adequate amount of funding in fiscal 1986 for the FmHA Water and Waste Disposal program. A level of funding in the area of $500 million total grants and loans is certainly reasonable and responsible in light of the current need for this construction financing and the benefits derived from it. Under the outstanding administration of the program by Dwight Calhoun, FmHA Acting Associate Administrator, and Glenn Bennett, Director of Water & Waste Disposal Division, the program has efficiently and expeditiously made the grants and loans necessary to build these vitally-needed projects. The low 1.41% of loan delinquency is just one indication of the effective administration of this program.

As any responsible business group, the National Utility Contractors Association (NUCA) supports a balanced federal budget. But given the figures cited earlier in my testimony, which indicate a 50% reduction in federal funding for these water and sewer construction programs, we feel strongly that the construction area of the federal budget has already been pared to the bone. Further reducing or eliminating funding will not reduce the need for this financing, it will only postpone construction -- and postponing construction leads to even greater costs and higher prices in the future.

This program is important, it is efficient and, above all, it is working. I strongly urge you to continue your past support for adequate funding in fiscal 1986 and beyond. Thank you for granting me the opportunity to appear before you here today, and I will be happy to answer any questions you may have at this time.

Farmers Home Administration/Water & Waste Disposal Division

Pending Preapplications & Applications (as of 4/15/85)

State	Loans		Grants	
	Number	Amount	Number	Amount
Alabama	26	$11,417,250	12	$9,672,000
Alaska	1	250,000	1	250,000
Arizona	7	3,074,400	3	4,598,100
Arkansas	156	65,235,352	107	47,941,199
California	51	24,192,160	28	19,002,375
Colorado	5	542,793	1	96,600
Connecticut	5	623,500	2	400,000
Delaware	2	797,300	-	-
Florida	6	10,870,100	3	2,431,100
Georgia	6	1,741,000	3	1,279,000
Hawaii	1	651,000	-	-
Idaho	7	671,560	6	496,427
Illinois	42	12,434,125	13	6,279,000
Indiana	22	9,029,540	3	1,924,000
Iowa	45	16,761,300	24	8,498,900
Kansas	28	16,970,793	12	8,073,550
Kentucky	87	55,835,673	71	39,788,525
Louisiana	74	38,348,225	11	3,911,300
Maine	7	11,218,700	3	1,131,150
Maryland	12	10,462,480	3	1,588,000
Massachusetts	-	-	-	-
Michigan	38	36,616,100	11	15,537,600
Minnesota	35	14,620,338	16	5,253,900
Mississippi	76	28,247,820	26	4,662,230
Missouri	33	17,657,462	21	10,195,555
Montana	4	1,613,800	-	-
Nebraska	7	900,700	4	218,000
Nevada	2	907,000	2	2,651,025
New Hampshire	-	-	-	-
New Jersey	5	10,223,039	-	-
New Mexico	1	700,000	-	-
New York	12	4,052,625	4	2,225,175
North Carolina	22	25,717,650	2	6,032,800
North Dakota	17	8,237,370	10	12,432,745
Ohio	18	6,715,825	12	4,468,750
Oklahoma	22	5,860,070	12	3,299,990
Oregon	6	1,270,566	5	3,617,334
Pennsylvania	21	12,460,647	7	3,639,377
Rhode Island	-	-	-	-
South Carolina	14	7,755,684	2	632,800
South Dakota	13	35,658,525	5	11,260,772
Tennessee	46	18,130,994	22	6,816,281
Texas	133	82,327,489	24	14,148,875
Utah	-	-	-	-
Vermont	1	160,000	-	-
Virginia	14	17,363,408	3	10,680,675
Washington	15	9,586,400	5	3,327,600
West Virginia	9	2,663,900	4	1,828,100
Wisconsin	20	3,490,198	13	4,207,006
Wyoming	2	310,000	2	1,268,000
Puerto Rico	2	1,348,000	-	-
Virgin Islands	-	-	-	
TOTAL	1,178	635,755,365	518	285,763,816

STATEMENT OF THE WATER AND WASTEWATER EQUIPMENT MANUFACTURERS ASSOCIATION

WWEMA is a 77-year old organization of over 120 corporations that develop technology for and manufacture and supply equipment, materials and services to the water supply and water pollution control industries. Our plants, in nearly all 50 states, employ some 50,000 people.

Our comments today will focus on the fiscal '86 budget for the Farmers Home Administration water and waste disposal program. This program serves a vital role, providing a number of communities in rural America with adequate drinking water sources and proper means for waste disposal to ensure that basic human needs are met.

While many communities have benefited substantially from assistance provided under this program, others face critical needs that cannot -- and must not -- be ignored. The growing threat of surface and groundwater contamination resulting from agriculture activities constitutes the most widespread cause of water quality problems from nonpoint sources. Detection of potentially toxic substances in our nation's drinking water heightens the need for remedial action to prevent further health hazards. Action is needed in all communities, regardless of population or financial capability.

The FmHA water and waste disposal program is designed solely to assist rural communities which are unable to obtain financing from other sources. These communities experience exceptional health and safety problems due to deteriorating water supply facilities or inadequate waste facilities. Today these needs amount to nearly one billion in applications-on-hand for FmHA loan and grant assistance.

Rural America is faced with the massive task of combating deteriorating potable water sources and providing adequate waste treatment to meet existing water quality requirements. WWEMA finds it inconceivable that funding for the FmHA water and waste disposal program would be further reduced, as proposed in the Administration's fiscal '86 budget.

The program has been cut by 56 percent since 1981. The fiscal '86 budget request would further reduce funding for the program by a phenomenal 83 percent in comparison to the level appropriated in fiscal '85. While WWEMA recognizes the need for fiscal constraint in a period of high deficit spending, we cannot justify penalizing financially poor communities by depriving them of that most basic human need -- water.

Continued support at the current funding level of $340 million in loans and $115 million in grants is a minimum requirement for smaller communities to maintain a healthy and productive standard of living. Any further reductions will have a significant negative effect on housing, economic development, community development, jobs and environmental quality in rural America. Water supply and treatment capacity is an essential element in achieving each of these goals.

Another important factor that should not be overlooked is the Administration request to cease funding the EPA construction grants program, with drastic cutbacks in each of the next four years. With the 1988 compliance deadline for communities to meet secondary treatment requirements, states and municipalities will be forced to divert limited resources to financing wastewater treatment facilities. This drain on available state and local funds will further inhibit the ability of smaller communities to obtain financing for their water quality needs.

The FmHA water and waste disposal program continues to provide a crucial service through a carefully administered system. The successful management of the program is reflected in a delinquency rate of only 1.4 percent during 1984. WWEMA urges the Subcommittee to maintain support for this program at a minimum funding level equal to the 1985 appropriation of $340 million for loans and $115 million for grants. Further reductions in the program will not only reverse progress achieved to date, but also result in fewer firms devoting their research dollars to developing new, cost-effective technologies to meet the special needs of small communities in managing their water resources.

WWEMA believes that with the Congress, FmHA and industry working together, we will be able to satisfy the future needs of rural America in providing improved water quality at a price that is consistent with the benefits. I would like to thank the Chairman and Members of this Subcommittee for allowing WWEMA to present its views.

STATEMENT OF BREAD FOR THE WORLD

Bread for the World is grateful for the opportunity to represent our views before the subcommittee. Bread for the World is a Christian citizens' movement with some 50,000 members nationwide, seeking to help address the root causes of world hunger.

FY 1985 Africa Emergency Supplemental

Mr. Chairman, for the first three months of this year Bread for the World was engaged in an effort to generate grassroots support for the supplemental appropriation for emergency food and non-food aid to Africa for FY 1985. We have a legislative recommendation to make to the subcommittee for FY 1986 that has grown out of our study of the circumstances that gave rise to that supplemental bill.

Before discussing that recommendation, we do wish to express our appreciation to you and the subcommittee for your work in passing the emergency supplemental bill. The passage of the bill and its subsequent enactment into law on April 4 will mean the difference between life and death for thousands of people. Your willingness to weigh the needs in Africa and pass an appropriation in excess of the administration's request will enable private relief organizations at work in Africa to assist literally millions of people who are threatened by the famine there.

PL 480 Title II: FY 1986 Appropriations

Mr. Chairman, in FY 1984 and FY 1985 the President has requested, and Congress has appropriated, $650 million for Title II food assistance. In contrast to Title I concessional sales, Title II grants are provided to U.S. private voluntary agencies and the U.N. World Food Program, for direct distribution to nutritionally needy people in developing countries. In both 1984 and 1985, Congress has returned to the issue some months after approving initial appropriations, in both cases considering and then sharply increasing an administration request for supplemental funds.

In light of the continuing needs for emergency food aid in Africa and elsewhere, Bread for the World is offering what we regard as a commonsense recommendation: that Congress go beyond the $650 million Administration request for FY 1986 and appropriate $900 million for Title II food aid in FY 1986.

The case for this increased appropriation for Title II can be summarized as follows:

(1) Title II spending for FY 1985 exceeds $1.2 billion. The funds were supplied from these sources:

Continuing Resolution Title II	$650 million
Title I Program Transfer	$90 million
Carryover from FY 1984 supplemental	$60 million

Unspent from FY 1984	$16 million
Supplemental for FY 1985	$394 million*
Total	$1.210 billion

* The FY 1985 supplemental figure includes $284 million in Title II appropriations for FY 1985, plus one-half of the two-year special Presidential Reserve.

(2) Title II needs for FY 1986 are projected to be nearly as great as in 1985. It is true that projecting emergency food aid needs months in advance is a tricky business. Accurate projections of food aid needs for AFrica will not be available at least until June, when planting season on much of the continent has passed. Even with this limitation, staff of the World Food Program say that a level of need similar to this year's should be expected for FY 1986, in Africa and elsewhere. Among the reasons:

(a) Refugee populations in many countries are extremely large, and resettlement even should rains exceed expectations, takes time. Estimates of the total number of refugees on the African continent range between 3 million and 5 million. Neither of these estimates includes the millions of others who have been displaced from their homes by famine or fighting, but have not crossed national borders. Especially in countries where security is likely to remain a severe problem -- Ethiopia, Sudan, Chad, Angola, Mozambique -- many farmers cannot safely return to their fields and resume production, even if weather conditions improve.

(b) Most African nations now have no reserve food stocks. At the beginning of FY 1985 at least some African countries had food stocks that reduced food aid needs and cushioned shortages. Now stocks have been used in most countries.

(c) USAID reports that shortages of seeds will limit production in many countries, even with the best weather conditions. People have been forced by severe need to consume seed stocks for food. Disaster assistance funds included in the recently passed supplemental will help to purchase and supply needed seeds in some areas. But seed shortages are still expected to constrain production in many others.

(d) Increased food aid needs are anticipated elsewhere: Bangladesh and Kampuchea are both projected by private agencies to require additional emergency food aid in Fy 1986.

(e) It does not appear that a significant amount of funding from the FY 1985 supplemental will be carried over into FY 1986. The needs in Ethiopia and the Sudan alone are enough to exhaust half of the supplemental funds approved, assuming a U.S. contribuiton equal to half of these countries' needs for the remainder of 1985. The need to repay some $155 million in program "borrowing" from Title I may further deplete the supplemental funds. Indeed it is conceivable that, as in the past, USAID will begin to draw down FY 1986 funds before the end of the current fiscal year.

In summary, there is no reason to expect that Title II needs will be significantly lower in 1986 than in 1985, when over $1.2 billion is being spent. This presents a choice to those in Congress and the administration concerned with the Title II program's operation: Secure funding substantially greater than $650 million at the beginning of FY 1986, or prepare to go through the process of a FY 1986 supplemental during the next fiscal year.

(3) Avoiding the need for another supplemental appropriation would improve emergency food operations by removing a major cause of delay of food allocations.

Dwindling Title II supplies early in calendar 1985 resulted in delayed allocations of food to some private relief agencies requesting Title II commodities for emergency feeding in several African countries. Planning by the private agencies and the continuity of food supply to people whose lives depend upon it could both be improved by a more adequate appropriation for Title II for FY 1986.

When supplies run low in mid-year, food shipments bound to other areas of the world are sometimes diverted to areas with emergency needs. This too can reduce the effectiveness of Title II emergency feeding by supplying commodities that are inappropriate for the African people being fed. Section 416 dairy commodities sent to Kenya, for example, are likely to be of little value because Kenyans' low lactose tolerance makes milk a food of little value there.

The need to find mid-year funding from other sources because appropriations have run out is at best complicating and at worst a serious hindrance to efforts by U.S. agencies to deliver food to people in danger of starvation.

Conclusion

$900 million is a proposal based on rough projections of need and a weighing of the factors cited above. No one can guarantee, at this date, that $900 million will be adequate for all FY 1986 needs. But we can be quite sure that the $650 million requested by the administration will not be sufficient. The $900 million proposal has been advanced in legislation introduced last week by Reps. Leland, Conte, and others, H.R. 2080. This bill, The Food Assistance and Africa Agriculture Act, also proposes a U.S. contribution to a new fund for Africa within the International Fund for Agricultural Development (IFAD), an agricultural aid agency focused on increasing the productivity of the small landholders who are the backbone of Africa's food production system.

I hope that the Appropriations committee will give favorable consideration to this two-pronged strategy for meeting food aid needs in 1986 and beginning a new commitment to support the efforts of African farmers to rehabilitate and improve their own food production systems.

STATEMENT OF THE AMERICAN VETERINARY MEDICAL ASSOCIATION

The American Veterinary Medical Association (AVMA), is the national organization of veterinarians. On behalf of the more than 40,000 members of our association, we want to thank you for the opportunity to make some recommendations on several issues related to the fiscal year 1986 appropriations for the U. S. Department of Agriculture.

Animal and Plant Health Inspection Service (APHIS) programs have been effective and productive, through cooperation with state governments and private practicing veterinarians, in reducing and controlling livestock diseases. These programs are essential elements in increasing the agricultural productivity of the nation. We are doubtful that the livestock producers and the states will, or can, maintain these programs without substantial federal participation.

The budget proposes to support the operation of the APHIS animal biologic regulatory program by imposing a user fee on the producers of animal biologic products. We oppose this proposal. The regulation of animal biologics is performed to assure safe and effective products for disease prevention and control in the public interest and to protect public health. The costs of this program should continue to be borne by general public funding. A special new tax called a user-fee is inappropriate and unfair considering the purpose of this program.

With respect to the brucellosis eradication program, a precipitous reduction in funding for the brucellosis eradication program would undo much of the progress that has been made. We recommend that federal funding for the brucellosis program be maintained at the 1985 level at least. We also recommend similar funding for a few more years to complete the eradication task.

It is important for the federal government to maintain a strong role in the brucellosis eradication program, because of the nationwide consequences of a reduction in efforts. If federal support is drastically cut, we anticipate that low-incidence states will try to maintain that status through a variety of state regulations limiting the interstate shipment of cattle. Likewise, without a strong federal program, foreign marketing of cattle would undoubtedly be reduced, and the export market for swine products to European Economic Community countries would be lost.

APHIS animal care activities directed to the enforcement of the Animal Welfare Act and the Horse Protection Act have been chronically underfunded. The animal care program has not met the expectations of those who encouraged federal legislation for the protection of animals in research and exhibit enterprises and those who are concerned for the humane treatment of animals. Even if the states along with private organizations were financially able to undertake animal welfare inspection, we question the national effect of the assorted standards and procedures which would impact research institutions and dealers, breeders, and exhibitors who operate in interstate commerce.

Questions about the adequacy of the care of laboratory animals have prompted calls for legislative action. A higher priority than passing new laws should be to provide adequate funding for the existing laboratory animal and other inspection activities. APHIS needs to expand the training of veterinarians who are responsible for laboratory inspections, and more funding needs to be devoted to this activity. We do not know what funding is needed for APHIS to expand these efforts while maintaining its other animal welfare inspection activities. However, it is clear that maintaining the current program is the minimum need. Essential improvements require added funding. We recommend an increase for 1986 of at least one million dollars.

In the budget for Science and Education, our concerns center on funding for animal health and disease research. Prior to fiscal year 1979, a limited amount of animal health and disease research was carried out in veterinary medical institutions through the Hatch Act program. The first federal program specifically designed for animal health and disease research in veterinary medical institutions outside of the Agricultural Research Service was not authorized until the 1977 farm bill. Since then, the modest financing of the animal health and disease research program (Sec. 1433) and special grants program has had a very favorable impact on animal health research. In order for the animal health programs to develop into an effective sustained effort to reduce the major losses attributed to animal health problems, Hatch funds, the animal health and disease research programs of Sec. 1433 and Sec. 1434, and the special grants program must be continued and expanded.

Animal health and disease research faces great challenges and opportunities at this time. We estimate that there is a loss of at least 35% in livestock productivity due to disease and other medical problems. Over half this loss is directly attributable to disease, and additional losses of 15% to 20% are incurred due to reproductive inefficiencies. If much of these losses could be avoided, the profitability of livestock production could be dramatically improved.

The nation has the veterminary scientific manpower available to address many more animal disease problems, if support were available. A 1983 survey of five veterinary colleges found that only 15% of these schools' research grants are funding food-animal health and disease research. There is a large pool of researchers, currently addressing human health problems because funding is available, who would be willing and able to devote their efforts to livestock disease problems immediately.

Approximately 6.5% of Hatch funds are applied to animal health projects in agricultural experiment stations, veterinary science departments, and some veterinary colleges. It is important that these funds be continued, as they provide base support for some animal health research.

A base of funding in the Section 1433 program is also essential because it provides a foundation of research capabilities, which can be built upon with targeted research supported by competitive-type grants. This program is used in different ways in different institutions, depending on their most critical needs. Examples of applications of the support include: funding exploratory research, funding work on local disease problems, helping maintain food animal herds for research, providing opportunities to respond rapidly to emerging disease threats and to quickly apply new technologies, and supporting applied, on-farm research, e.g., non-traditional research such as herd health data and management systems.

For fiscal 1986, the administration has proposed continuing the competitive grants program to support research in biotechnology. We support this effort to bring greater emphasis to the application of biotechnology to agriculture. The competitive grants program is an excellent vehicle for this effort. The competitive-type research grant program authorized in Section 1434 would also work well in applying biotechnology principles to animal health and disease problems.

The time is ripe for applying the new biotechnology and computer technology to food-producing animals. The potential payoff for animal health resulting from these applications is greater over the short term than can be expected with any other area of agriculture. The technology is available and well-advanced in many areas. All that is lacking is the support to apply the technology. Competitive grant proposals addressing the areas of genetic engineering of micro-organisms, genetic engineering of embryos, immunobiology, improved diagnostic technology and systems analysis, and improved reproductive efficiency should be given the highest priority for funding.

Congress anticipated the important role that competitive grants could play in the support of animal agriculture when Section 1434 was included in the 1977 farm bill. As amended by the 1981 farm bill, this section authorizes the Cooperative State Research Service to administer a competitively awarded research grant program which focuses on regional or national priority animal disease problems. The statute provides for peer review of grant proposals to assure the high quality of research projects. There is broad agreement within the veterinary medical research community that top priorities for funding in this program would be complementary to the biotechnology competitive grants.

We also support a continuation of the special grants program under the same format as is presently practiced. The competitively reviewed animal health and disease research component of this program is an important element of USDA's extramural research support.

In all these research activities, there needs to be a continued recognition of the unique resources of the veterinary schools and veterinary science departments. The considerable biomedical and biotechnological resources at medical schools and other research institutions have some applicability to animal agriculture, but laboratory models for livestock disease can provide only so much information. Research on the diseases of food animals must ultimately be done with these animals in the institutions that have the expertise. There is no question that this is expensive research, but the pay-offs for farms and, ultimately, consumers will be substantial.

We support the recommendations of the National Association of State Universities and Land Grant Colleges regarding funding for these programs in fiscal 1986. We urge the Subcommittee to support these funding levels so that our agricultural research community can continue to make progress toward the control and prevention of the variety of diseases that hinder the livestock industry. We concur in the conclusions of the Winrock Workshop on Animal Health Research, which recommended targets for animal health research over the next few years. Based on the expected capabilities of the research institutions, the Workshop recommended funding for Section 1433 of $10 million by 1988 and $15 million by 1992, for Section 1434 of $30 million by 1988 and $50 million by 1992, and for special grants for animal health of $10 million by 1988 and $15 million by 1992. These are realistic goals, and we believe that the research results will pay enormous dividends to the livestock industry and the public in succeeding years.

The need to increase the number and quality of scientists and educators in the agricultural sciences is a growing concern, and veterinary medicine is no exception. The initial funding of the graduate fellowship program in fiscal 1984 was an important step, and we strongly encourage the continuation of the program in 1986.

Thank you for the opportunity to comment on these issues, which we believe are critical to the future of the nation's food supply of animal origin. Our association stands ready to provide assistance to the Subcommittee in any way we can.

LETTER FROM FRED H. HOLT, PRESIDENT, ANIMAL HEALTH INSTITUTE

The Honorable Thad Cochran, Chairman
Subcommittee on Agriculture, Rural Development
and Related Agencies
Committee on Appropriations
U.S. Senate
Washington, D.C. 20510

April 19, 1985

Dear Mr. Chairman:

I request that this letter of comments on the appropriations for fiscal year 1986 for agriculture, rural development, and related agencies be included in the record of the subcommittee's hearing.

The Animal Health Institute (AHI) is the national trade association of the major U.S. manufacturers of animal health products. There are several programs in the Department of Agriculture to which these comments are addressed.

Veterinary Biologics Program

For many years, USDA's Animal and Plant Health Inspection Service (APHIS) has operated a program, pursuant to the Virus-Serum-Toxin Act of 1913, to assure the purity, safety, potency, and effectiveness of animal vaccines and other biological products which are shipped in interstate commerce. For fiscal 1986, the President's budget request included a recommendation that user fees be collected from the regulated animal biologics producers to recover the entire cost of this program.

The Animal Health Institute believes that the imposition of user fees to support the veterinary biologics program would be short-sighted, illogical, and detrimental to owners of livestock and pets. The long term economic losses to the livestock industry would far outweigh the modest savings to the federal government from the collection of user fees. Agricultural leaders in Congress recognize this and have expressed disdain for the user fee idea.

The Virus-Serum-Toxin Act is a public health and safety law. Its purpose is to protect animals and animal owners from "worthless or harmful products." Vaccines that are not pure, safe, potent, and effective obviously present health risks to the animals receiving them and potential economic losses to their owners. There are also direct human health risks from ineffective vaccines, especially from products to protect against diseases transmissible from animals to man, such as rabies and anthrax.

The public as a whole benefits from the veterinary biologics regulatory program -- livestock producers, pet owners, and anyone else who comes into contact with domestic animals. It would be most inappropriate to assess user fees against the manufacturers of these products, because the benefit accrues to the public, not the manufacturers.

Although we can only speculate about the economic ramifications of veterinary biologics user fees, the effects could be substantial. The short-term impact of user fees on livestock producers would likely be an increase in prices of many veterinary biologics. This could be a significant financial burden on many already hard-pressed livestock producers. Over the long term, the selection of products available to the livestock industry may be affected. If some biologics manufacturers find that they cannot raise prices sufficiently to cover the added user-fee costs, they may stop marketing one or more of their products. They may also be less inclined to invest in the research and development required to produce new products.

A significant number of animal biologics manufacturers are outside the scope of USDA regulation, because they purportedly produce and market their products only within one state. They need to provide no assurance to the federal government (or to any state government, in most instances) of the purity, safety, potency, or effectiveness of their products. If the USDA-regulated veterinary biologics producers were required to pay user fees, they would have an added cost of doing business, which would heighten the economic disadvantage they face when competing with the unregulated manufacturers.

In summary, the Virus-Serum-Toxin Act is a public health and welfare statute which is not an appropriate subject for the user fee concept. Furthermore, such user fees could have substantial adverse economic consequences for livestock producers. These facts have been recognized by members of Congress, as evidence by the House Agriculture Committee's report to the Budget Committee (Committee print dated March 15, 1985), which states the Committee's firm opposition to the concept of veterinary biologics user fees. We strongly recommend that the subcommittee maintain full funding for the veterinary biologics program for fiscal 1986 and beyond, in the interest of the health and well-being of the livestock industry and the general public.

IR-4 Program Funding

For a number of years, the cooperative research program of the state agricultural experiment stations known as Interregional Research Project No. 4 has provided an excellent service to the producers of "minor" species of plant and animals. Participants in the IR-4 project have obtained clearances for a number of pesticides for minor uses, and, within the past few years, have launched an energetic and successful program to develop data for the approval of animal drugs for use in minor species.

We oppose the President's budget proposal for fiscal 1986 which would eliminate special grant (P.L. 89-106) funding for the IR-4 project. We recommend that the subcommittee continue to provide support for this activity in fiscal 1986. This has been, and will continue to be, a very cost-effective expenditure by the federal government.

Our member companies have become active participants in the IR-4 program and strongly support its continuation. The program can provide valuable benefits to the producers of minor animal species, and the consumers of their products, as the result of a modest investment by the federal government.

The benefits of IR-4 are so great because IR-4 is truly a partnership of government, academia, and industry. The "seed" money from USDA's Cooperative State Research Service is enhanced by the research resources of the state agriculture experiment stations. Industry participates through cooperation in the use of data already generated for marketed drug products and through efforts to revise FDA filings and product labeling to make the drugs available to the minor-species producers. None of these "partners" could undertake even a fraction of this effort on its own, but through this joint effort, a growing array of safe and effective drug products is becoming available.

This activity should be given the highest priority in the allocation of special grant funds.

Thank you for the opportunity to present our views on these important agricultural issues. Please do not hesitate to contact this office if we or any of our members can be of assistance to the subcommittee's deliberations.

Sincerely,

Fred H. Holt
President

STATEMENT OF FAY BRISK, ANIMAL PROTECTION ASSOCIATION OF AMERICA, INC.

We appreciate this opportunity to participate in these hearings, and request that the Animal Welfare Act be properly funded in Fiscal 1986.

As one of the few people still around who initiated the action on the 1966 Act and testified in support of it, I am prepared to show that the Animal Welfare Act is a bargain at the current (or even higher price) and that individual states are in no position to enforce it, even if it were legal to do so. It isn't. The Administration's proposal to withhold all funding from the program would simply kill it.

To begin with, the vast majority of states operate under anti-cruelty laws, many of them weak and outdated and applying only to domestic animals. The few that have animal welfare laws are severely limited in scope.

Pennsylvania, for example, has a State Dog Law that-- in addition to other provisions-- requires licensing of laboratory dog dealers. Just to enforce regulations pertaining to dogs, Pennsylvania has a budget of more than $3 million, and would, no doubt, need far more to include all the animals under the Animal Welfare Act. For the sake of argument, however, if every state provided $3 million for animal welfare-- or even averaged $1 million taxpayers would be spending from $50 million to $150 million annually for a program they can now get for $4.8 million from the U.S.Department of Agriculture. Somehow, Administration logic escapes us!

Aside from costing the taxpayers more money, it should be obvious that the states can't handle this highly lucrative, interstate animal traffic that has been (and, in many instances, still is) guilty of:

-- Stealing pet dogs and cats for medical research;
-- Filthy housing conditions and needless cruelty in laboratories, animal dealers' kennels, puppy mills and roadside zoos;
-- Mistreatment of pets and other animals by the airlines.

If these problems could have been solved at the state level, there would have been no need for Federal legislation. In that respect, it is important to point out that the 1966 law was initiated at the grass roots level by a small, Pennsylvania humane society that had tried, unsuccessfully, to involve the state in the interstate traffic of its laboratory dog dealers. Action on the 1976 humane transport amendments was initiated by the Washington (D.C.) Humane Society, which established an animalport at Washington National Airport to expose, nationwide, the mistreatment of pets and other animals shipped by air.

It took the Federal government to bring about some improvement in these crucial areas, and it will still take the Federal government to oversee the licensing of more than 4,500 laboratory animal dealers and exhibitors and the registration of roughly 1,100 research facilities and nearly 400 airlines and intermediate handlers.

In conclusion, we would like to ask the Administration how any state, for example, could handle a case which recently came to our attention:

According to letters we have in our possession, Charles River Research laboratories in Massachusetts shipped four primates from Kennedy International Airport on February 7. Three reportedly died enroute to the University of California, and the other reportedly died enroute to the University of Michigan. Involved, also, was the air-freight carrier in charge of the shipments, and probably the airline as well.

The U.S Department of Agriculture-- with all its machinery already in place-- is conducting an investigation in various parts of the country. Would it be feasible for one state to do that, and, in this case, which state would it be?

Thank you.

Statement of James A. Graham, North Carolina Commissioner of Agriculture

This statement has been submitted in order to make a recommendation concerning the USDA-APHIS budget and specifically the proposed reduction in the FY 1986 funding level for the witchweed program. I hope that funding for this program can be restored to the 1985 level of $4.7 million.

Witchweed is a parasitic weed that attacks corn, sorghum, sugar cane, and many grassy weeds. It can reduce yields by 50 percent, doing its damage underground by attaching to the roots of host plants. It was first found in the United States in the eastern part of North Carolina in 1956 and subsequently infested 38 counties in North Carolina and South Carolina. Witchweed is a threat to all corn-growing areas of the United States. The number of acres of corn, sorghum, and sugar cane in the United States that can potentially be infested with witchweed is approximately 88 million acres. Grower control costs could exceed $1.7 billion annually if a general infestation were to occur.

The federal government reacted to the discovery of this pest by establishing a quarantine in 1957. Since that time, USDA personnel have regulated the movement of commodities and machinery that can spread the pest. They keep survey records on every known infested field and help to prevent witchweed from producing seed, using techniques especially developed for witchweed. The witchweed program has been extremely successful. The spread of the pest has been contained within the same general area of discovery and has been eliminated from twelve of the 38 previously infested counties. Of the total area ever known to have been infested, about 53 percent has been released from quarantine. Of the approximately 201,000 acres presently under quarantine, about 55 percent is thought to be witchweed-free but still under quarantine. Approximately 78,000 acres are scheduled for release within the next two years. Therefore, approximately 70 percent of the total area ever known to be infested is now free or should be free within two years. This is significant progress.

A large amount of acreage has been released from quarantine within the last four years due to new technology developed specifically for the program, a change from whole-farm to individual-field release, and an innovative point system approach to releasing acreage. These factors will continue to impact on the release of additional acreage from quarantine and should result in the eventual elimination of expenditures for this program.

The FY 1985 level of funding of $4.7 million provided for the continuation of an effective regulatory, survey, suppression, and eradication program. Survey and control activities are vital components of the program because certification of commodities is based on the determination that witchweed is below detectable levels in a given field; this assumes that the witchweed status of every field is known through visual survey and soil sampling. Some regulated commodities from infested areas can move if they are washed free of soil. Suppression and eradication activities are geared toward decreasing the amount of acreage infested and spot-treating new infestations to prevent spread. Other states have faith in the quality of the cooperative witchweed program in its present form. They have not established their own exterior quarantines and accept the farm-by-farm certification as presently established.

Termination of USDA involvement in the witchweed program would be a regulatory nightmare for the infested states. If this were to happen, the Carolinas would have to assume responsibility for conducting a federally mandated quarantine and certification program so that articles capable of moving the pest could be traded in national and international commerce. The quarantined commodities would include peanuts, sweet potatoes, Irish potatoes, nursery stock, cucumbers, watermelons, other vine crops, soybeans, corn, hay and peppers. The states would also have to regulate equipment sales yards, outdoor storage and shipping areas, and shipping containers such as bags, boxes and crates.

USDA personnel are trained, in place, and currently handle all these activities. The states just do not have the funds nor the trained personnel to take over this job. Without a solid, balanced program, noninfested states and foreign countries would probably establish exterior quarantines against commodities capable of spreading the pest. This could have disastrous effects on the Carolinas. In 1982, when the projected federal funding for the witchweed program for FY 1983 was $0.0, regulatory officials in noninfested states contacted those in the infested states asking what counties, not farms, were infested. They were beginning the process of individual state quarantines against the pest. The value of regulated commodities in infested counties alone exceeds $550 million per year.

As witchweed spreads, buffer areas beyond the presently infested areas would be incorporated into exterior quarantine regulations. It would be only a matter of time before the bounds of the infested area could expand to other counties and then to other parts of the United States.

Even though the proposed funding has not been cut to zero, the impact of decreasing federal funding from $4.7 million to $1.1 million in FY 1986 would have very similar overall effects to those just described. One likely outcome would be to limit the witchweed program to one of regulation only, with no survey, suppression, or eradication activity.

With no survey and control activity, the witchweed status of individual fields would not be known. As a result, regulated commodities could not be easily certified. Only those products, farm tools, and machinery that can be washed free of soil could move, assuming that personnel are available to certify the articles. With no control activity, witchweed plants would be allowed to produce seed. Witchweed would not be limited to a precise area as it has been. Spread would be inevitable, as previously described.

We certainly recognize that North Carolina, as an infested state, should have a significant role in combating witchweed. Our farmers within quarantined areas suffer the consequences of regulatory compliance, of not always being able to plant crops of their choice on infested land, and, in some cases of reduced yields. The State Department of Agriculture has committed additional resources to the cooperative control program by adding a permanent employee in the witchweed soil-testing laboratory.

To summarize, we have the technology to suppress and eradicate witchweed and have made substantial progress in the last four years toward this goal. We can continue this progress with sufficient funding and rid North Carolina and South Carolina of this pest in a relatively short period of time. The reduced level of funding proposed in the 1986 federal budget would allow witchweed plants to produce seed and spread to other areas of the United States. To cut back on funding now would be economically unsound. It would be a giant step backward rather than just a delay in our fight against witchweed.

STATEMENT OF THE NATIONAL BROILER COUNCIL

The Office of Management and Budget ("OMB") has proposed shifting the cost of the activities of the Packers & Stockyards Administration ("P&SA") from government to industry. This would be done by imposing an annual licensing fee on businesses subject to the Packers & Stockyards Act ("the Act"). On its face, the P&SA proposal tracks other OMB proposed budget cuts whereby the government would stop funding a particular service, and would require instead that those who benefit from the service pay for it. However, the activities of P&SA do not constitute a service for the benefit of the poultry industry and user fees are not appropriate.

The impetus for the passage of the original Act, which applied only to meat packers, came about in large measure because of a Federal Trade Commission ("FTC") report to the President on conditions in the meat packing industry. The FTC had found that the five largest packers had utilized their monopolistic position to the detriment of producers, competitors and consumers. That report noted that the power of the five largest packers had been used unfairly and illegally "to manipulate livestock markets; restrict interstate and international supplies of foods; control the prices of dressed meats and other foods; defraud both the producers of food and consumers; crush effective competition; secure special privileges from railroads, stockyard companies and municipalities and profiteer." FTC, Report of the Federal Trade Commission on the Meat Packing Industry 392 (1919). It was feared that the meat packers were extending their control to many other aspects of the food marketing industry.

The competitive problems of the meat packing industry were considered substantial enough to warrant a special agency. The Act was passed in order to "assure fair competition and fair trade practices in livestock marketing and in the meat packing industry. The objective was to safeguard farmers and ranchers against receiving less than the true market value of their livestock and to protect consumers against unfair business practices in the marketing of meats, poultry, etc." H.R. Rep. No. 1048, 85th Cong., 1st Sess. 1 (1957) (explaining purpose of the 1921 Act). The Act thus was originally passed to benefit the economy and American consumers through the elimination of a wide variety of unfair trade practices believed to be rampant in a particular industry.

In subsequent amendments to the Act, Congress addressed the problem of racketeering in the live poultry market, but specifically declined to extend the Act's coverage to all poultry dealers. Amendments passed in 1935 were aimed solely at racketeering in the live poultry market in major metropolitan areas and cover only "live poultry dealers." See S. Rep. No. 487, 74th Cong., 1st Sess. (1935); 79 Cong. Rec. 12593 (1935). P&SA control over the poultry industry has been narrowly focused and does not constitute the same intricate regulation of day-to-day activities as it does in the meat packing industry.

Because of changes in lifestyle and methods of marketing, the market for live poultry is virtually nonexistent. Moreover, at the time the 1935 amendments were passed, the present integrated poultry industry had not yet come about. Thus, there is no history of widespread abuse in the presently constructed poultry industry such as existed in the meat packing industry or the live poultry industry of the 1930's. There is, therefore, no justification for P&SA's continued involvement in the poultry industry.

The closest analogy to the relationship between the live poultry industry and the P&SA is the function performed by the FTC and the Justice Department. The P&SA initiates periodic investigations of broiler processers to determine if there have been violations of the Act, or it initiates investigations when it receives particular complaints. It would be preposterous to require industries to bear the administrative costs for investigations undertaken by the FTC and the Justice Department. It is equally preposterous to require the poultry industry to bear the administrative costs of the P&SA.

The only instance where it is appropriate to impose user fees is where the government provides a service to an industry or bestows a benefit on a company or individual, and not on the public at large. For example, USDA has a number of voluntary programs for grading commodities such as the meat grading program operated by the Agricultural Marketing Service and the grain grading program operated by the Federal Grain Inspection Service. Such services add value to a product and facilitate sales to institutions and retail purchasers. The activities of the P&SA, on the other hand, are not intended to benefit poultry companies. Thus, because the Act does not constitute a special benefit for the industry, imposition of user fees is unfair and inappropriate.

Furthermore, it cannot be claimed that P&SA is performing any service for the broiler processors whom it investigates and sometimes challenges in court. Such activities do not constitute any more of a service than do the activities of the Justice Department, the FTC or the IRS. If one were to believe the arguments of the proponents of user fees for P&SA, one could use the same arguments to say that the Justice Department and the FTC ought to receive user fees from any company that they investigate.

We believe, moreover, that the function the P&SA performs with regard to the broiler industry is duplicative of the activities of the Justice Department and the FTC and that P&SA jurisdiction over the broiler industry should be abolished altogether.

STATEMENT OF THE CROP INSURANCE RESEARCH BUREAU

The Crop Insurance Research Bureau (CIRB) supports the recent annnouncement by the Federal Crop Insurance Corporation (FCIC) to discontinue the use of "master marketing" contracts as a means of marketing the federal multi-peril crop insurance (MPCI) program, and as a means of reducing the cost to the taxpayer of the MPCI program.

CIRB, headquartered in Indianapolis, Indiana, is a national trade association of more than 60 crop insurers and other organizations, who lend support for the crop insurance industry. CIRB members insure crops in 26 states and provide more than $5.5 billion in crop hail protection. Over one-half of the CIRB member companies participate in the federal multi-peril crop insurance program. While CIRB MPCI writers today participate in the federal program as reinsurers, some, in the past, have also been master marketers.

In 1984, approximately 60 percent of MPCI was sold by private insurance companies who were reinsured by FCIC. It is anticipated that in crop year 1985 nearly 80 pecent of crop insurance will be purchased through private companies who are reinsured by FCIC. In the four years since the enactment of the 1980 amendments to the Federal Crop Insurance Act, reinsured private companies have increased their participation rate by 40 times. The reason for this tremendous increase is simple -- private insurance companies through their professional agents are able to sell and service insurance contracts better.

Private companies routinely train and retrain their agents so that they are knowledgeable regarding all aspects of crop insurance. The private companies are able to service their contracts better because of their well managed administrative departments. Having been in the insurance business many years, and some cases over 100 years, the private companies have established sound field and crop assessment files. This affords the private companies the opportunity to more accurately provide the level of crop insurance needed by the producer. In addition, private companies have been servicing the property and casualty insurance needs of farmers for years. With the inclusion of crop insurance in the package of insurance available, the private insurance companies will be able to meet all of the farmers insurance needs.

As the multi-peril crop insurance program moves towards actuarial soundness, the private companies will be able to establish rates which represent true risk because of the additional experience gained in writing areas and the factor of using large numbers to spread risk.

It is obvious, then, that the announcement by FCIC is a sound decision from a fiscal point of view. Since reinsured private companies will be meeting the crop insurance needs of the farming community, there is no need for the federal government to bear the cost of an administrative staff to service the needs of a very limited amount of master marketing contracts.

In summary, CIRB applauds the move towards reinsurance and the appropriate reduction in the FCIC budget which will result.

STATEMENT OF JOHN KRABSETH, MANAGER, NORTHERN CROP INSURANCE, INC.

This testimony is submitted in response to the proposed changes in the Federal Crop Insurance program. We are greatly concerned over the proposed rule making to amend policy regulations of the Corporation to phase out FCIC's direct insurance writing operation. Four years of marketing crop insurance by reinsurance companies is not sufficient time to establish a record of performance and dependability.

To convert soley to a reinsurance program raises serious questions as to viability of the crop insurance program in terms of reaching farmers. Master Marketers believe that under a total Reinsured concept many high risk areas of the country will not be properly served with crop insurance protection if FCIC is allowed to eliminate the Master Marketer delivery system on Federal paper. Insurance companies, especially those carrying risk, consistently will not underwrite high risk areas.

Assistance from the government would pool the risk to protect both the taxpayer and the farmer, where private industry would individualize it. In the past, MPCI companies have been allowed to select risks for Reinsured purposes while dumping alleged poor business on their own Master Marketing companies. What assurance will farmers have that crop insurance will be available under a Reinsurance program?

FCIC management should review past attempts by insurance companies to provide continued crop protection in face of a great natural disaster. Management has not submitted to the U.S. farmer or Congress the drastic effect this may present to the farmer. Since the time of Benjamin Franklin, the need for Government support for a protection program for farmers in case of disaster caused by natural causes has been widely recognized.

The stability of the U.S. economy is directly affected by the strength of the farm economy. A government supported disaster insurance program is of vital importance to the U.S. farmer. Administration of this program can be managed by the private sector but safeguards must be provided to assure that both the taxpayer and the farmer are protected. Since insurance is a necessity in a depressed farm economy, the farmer should not be capitalized upon by the private industry.

In testimony presented Thursday, March 14, 1985 before a Senate subcommittee panel on appropriations, USDA and FCIC admitted it expects premiums to increase by 50% as the subsidy is phased out. We would like to suggest that this committee question FCIC as to the benefits provided in the request to eliminate subsidy toward premium and include cost for administration in the premium,hence, encouraging a future disaster program. This movement would prove to be to costly forthe farmer. The cost price squeeze will force the producer to make a detrimental management decision and cut expenses by eliminating crop insurance.

Let's acknowledge past experiences and advocate a progesssive National program of mutual support for a good farm and Federal economy. With thoughtful consideration, will private, profit-making industry provide a stabilized farm program and protect the national farmer against disaster.

The Federal Crop Insurance Act of 1980, a bi-partisan political measure, provides for the farmer's protection against disaster, however the present proposals are not following with the intent of the law. Present APH proposals direct coverages based upon individual yield regardless of mutual disaster; this is in direct conflict of the 1980 act which enhanced disaster programs administrated by ASCS. Individual coverages enrich the fortunate blessed with crops and deprives the unfortunate which have unavoidable losses due to hail, drought, etc. Does Congress support this elimination of the future of this disaster program?

FCIC estimates the conversion to Reinsurance would result in initial savings to taxpayers of $17 - $19 million. Master Marketers believe the final result will be substantial increases in costs to the taxpayer and historically, records of the Federal Crop Insurance Corporation show clearly massive savings to the taxpayer through operation of the Federal program in comparison to FCIC projections for a solely reinsured operation.

MMA's and Sales and Service Agreement could provide a vehicle to administrate all Federal Crop Insurance contracts at a cost now offered to reinsurance companies. Why aren't the MMA contractors offered to provide this service.

FCIC management has lost sight of the fact that its experienced sales force remains largely with Master Marketers; shouldn't they be offered the chance to assist in a private industry venture to service the U.S. farmer? This would provide a continued guaranteed protection rather than a company with too high a risk.

MMA's could administrate FCIC paper and do most of the functions presently done in Kansas City and also loss adjustments at the same rate allowed in the reinsurance contract. This would allow the farmer the opportunity to insure with FCIC or a reinsurance company and would also create a healthy climate with FCIC and reinsurance companies competing for the farmers' business with better service and in general, benefit all concerned.

There should be concern as to the cost of maintaining FCIC paper and we are confident the MMA's have the ability to meet this challenge, if management will give them the chance to administrate the FCIC policy in the same manner reinsurance companies are doing. The four years that the reinsurance companies have been marketing crop insurance is not sufficient time to establish a record of performance and dependability.

Letter From R.M. Hendrickson, President, Pfizer, Inc., Agricultural Division

The Honorable Thad Cochran
Chairman, Subcommittee on Agriculture
and Related Agencies
326 Senate Russell Office Building
Washington, D.C. 20510

March 25, 1985

Dear Mr. Chairman:

In 1978, the Food and Drug Administration (FDA) proposed to restrict the subtherapeutic uses of penicillin and the tetracyclines in animal feeds as a result of the theoretical possibility that these uses could lead to human health problems caused by antibiotic resistant bacteria. Because of the theoretical nature of this concern and the serious impact that such a restriction would have on meat production and cost, the Committee on Appropriations took steps to direct FDA to hold their regulatory action in abeyance until the issue could be thoroughly reviewed by the National Academy of Sciences and additional studies could be completed.

FDA sponsored several studies subsequent to the publication of the NAS report. These studies have now been completed and are under review within FDA; since these studies appear not to have addressed some of the basic epidemiology questions raised by NAS, additional studies have been undertaken through the Animal Health Institute. Research is being conducted through Harvard and Loma Linda Schools of Medicine. This work, of which FDA is aware and following with interest, is still underway, but is expected to be completed during 1985. For the first time, direct epidemiological work is studying the underlying questions raised by NAS in experiments directly pursuant to the suggestions contained in their report.

In recognition of this continuing controversy, the Senate Report 98-566 that accompanied the FY 1985 Agriculture, Rural Development, and Related Agencies Appropriations Bill, directed the FDA to: (1) fully review the results of the research currently being completed and any other relevant information, and (2) report on FDA's conclusions and probable future actions in the context of this Committee's hearings on FDA's 1986 Appropriations. Further, the report directed FDA not to propose or undertake any further action to restrict the use of antibiotics in animal feed until after the Committee has had an opportunity to consider FDA's request.

I respectfully request that the attached statement be included as a part of the record of hearings currently underway on FY1986, and that your committee consider these important new studies in your direction to FDA on this subject.

Sincerely,

R. M. Hendrickson

STATEMENT OF PFIZER, INC.

The antibiotics in animal feeds issue which has been of continuing interest to this committee has been the subject of considerable activity at FDA during the past year. Pressure has been brought to bear on FDA to render a decision on this issue despite the fact that no convincing new evidence has been brought forward to justify such action.

In January, an extraordinary hearing was held by FDA in response to a petition of an environmental group, the Natural Resources Defense Council (NRDC), requesting an immediate suspension of the subtherapeutic uses of tetracycline and penicillin because they alleged the continued use posed an "imminent hazard to the public health." At that hearing, 36 witnesses presented evidence to Commissioner Young and an FDA panel. The testimony of some of the foremost epidemiologists, infectious disease experts and statisticians in this country was that not only did no imminent hazard exist but that there was a real question as to whether the subtherapeutic uses of tetracycline and penicillin posed any hazard to human health. On the other hand, testimony also was presented showing the very great value of these products to American animal agriculture both in meat production and in disease prevention. It is our belief that the transcript of that hearing documents not only the lack of any substantive evidence for NRDC allegations, but also the overwhelming evidence of the safety of these products. Surely, the evidence presented at that hearing should reassure both the FDA and the American consumer of the value and safety of these products.

The National Academy of Sciences (NAS) in its comprehensive review of this subject in 1980[1] concluded that the existence of a human health hazard due to subtherapeutic uses of antibiotics was neither proven nor disproven and suggested several experimental approaches which might provide relevant data. These suggested approaches would use epidemiological techniques to broach the gap between the vast amount of laboratory data available and the real world of public health on which the issue must focus.

Although FDA undertook several studies subsequent to the NAS report, these addressed the question of whether or not animal pathogens could or could not be transmitted to man, but not the larger question of whether or not such events occur with any practical frequency, and if so, whether the subtherapeutic uses of antibiotics have any causal relationship to them.

Using the guidelines of the NAS report, the Animal Health Institute (AHI) has undertaken several epidemiological studies to address this public health question:

1. In one study, urine samples from women working in a poultry processing plant have been examined for the presence of bacteriuria; when found, the bacteria are being examined for the presence and

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[1] The Effects on Human Health of Subtherapeutic Use of Antimicrobials in Animal Feeds., NAS (1980).

extent of antibiotic resistance and to learn whether they bear any relationship to bacteria isolated from the chickens being processed in the plant. This study cuts to the heart of the question: "Are animal bacteria on meat causally related to disease in man?" (Research being conducted by Dr. Edward Kass, Harvard University).

2. A population of Seventh Day Adventists is being studied to determine whether the fecal microflora of meat eaters contain measurable numbers of animal bacteria acquired through meat when compared to a control group of vegetarians in the same community. Again, this trial focuses on the real public health question: "Does the consumption of meat and meat products place a population at any risk to disease due to bacteria of animal origin vis-a-vis vegetarian controls?" (Research being conducted by Dr. Harvey Elder, Loma Linda University School of Medicine).

3. A variation of the second approach is being conducted in a group of macrobiotics (strict vegetarians) whose diet excludes animal products of any kind. Once again, the objective is to examine the putative link between animal bacteria and human microflora. (Research being conducted by Dr. Kass, Harvard).

The members of AHI believe strongly that these ongoing studies respond unambiguously to the suggestions of NAS. The results of this work will be informative and probably instructive in attempting to resolve this long-standing question. It is expected that all three of these studies will be completed with reports available by the Fall of 1985. Indeed, it is hoped that results of this work can be presented at the Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC) in October of this year. We believe FDA wishes to include all relevant good science in its review of this issue; we also believe it is in the public interest for the agency to consider the results of these important studies to help them reach a regulatory decision. Accordingly, we ask that FDA be encouraged to defer its decision on the need for further regulatory action until the results of these studies can be considered later this year.

We thank you for the opportunity to submit this testimony for the consideration of the Appropriations Committee in its hearing.

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